MONETARY POLICY REPORT

MARCH 2025

100 pesos, Central Bank of Chile, 1925.

In 1925, the Central Bank of Chile began issuing legal tender banknotes to banks. These were provisional banknotes that maintained the same iconography and had overprints with the Central Bank's name and logo. They came in series of 5, 10, 100, 500, and 1,000 pesos. The obverse of this 100-peso banknote features (on the left) an allegory of the Republic, accompanied by an allegory of the arts (on the right), featuring a lyre, a stringed instrument that in ancient Greece often accompanied those reciting poetry.

Monetary Policy Report

March 2025

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.

Luis Oscar Herrera Barriga / Legal Representative
Corporate Affairs Division
CENTRAL BANK OF CHILE
Agustinas 1180, Santiago, Chile

Tel.: 56-22670 2000
www.bcentral.cl
bcch@bcentral.cl
ISSN: 0716-2219

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*/ For the central scenario construction purposes, the statistical cut-off date is 18 March. This document was originally written in Spanish. In case of discrepancy or difference in interpretation, the Spanish version prevails.

SUMMARY

Inflation has evolved in line with projections in the December IPoM, although it has remained at high levels and with important risks regarding its future evolution. Activity has been more dynamic than expected, largely due to the boost from exports. Meanwhile, the international outlook has become significantly more uncertain due to the resurgence of geopolitical tensions, especially in commercial matters. This has intensified doubts about global growth, particularly in the United States, leading to a decoupling of the American economy's financial markets from the rest of the world and a significant depreciation of the dollar. Pending further information, the impact of the deterioration of external conditions on the Chilean economy is expected to be limited. Nevertheless, uncertainty has increased considerably. In the immediate future, the local economy will continue to reflect the effects of the higher starting point of the last few months, in addition to a more positive evolution of some spending fundamentals. For this year, the growth range is raised to 1.75% to 2.75% and the expected growth for 2026 is maintained between 1.5% and 2.5%. Inflation is still projected to converge to 3% by early 2026, once the comparison base effects of cost increases are left behind. The Board will assess the next movements of the Monetary Policy Rate (MPR) bearing in mind the evolution of the macroeconomic scenario and its implications for the inflationary convergence.

Inflation has evolved in line with estimates, hitting 4.7% annually in February (4.2% in November), but is still at high levels. The influence of the volatile energy component in this result deserves special mention. This includes the expected readjustment of electricity rates and higher figures for fuel items, given the depreciation of the peso and the rise in external prices of these products in previous months. Core inflation (which excludes volatile items) has evolved somewhat below expectations but remains close to 4% annually.

Data for the end of 2024 and beginning of 2025 show a more dynamic economy than expected. GDP grew 2.6% last year, exceeding forecasts in the previous IPoM (2.3%). It is worth highlighting the impulse from several export-related sectors, mainly agriculture and livestock and wholesale trade —especially due to cherry production and shipments during its season—, the more positive evolution of the food industry, and the boost from the greater number of foreign tourists in retail trade and some services. All this has underpinned the performance of foreign shipments and the current account, which in 2024 recorded a deficit of 1.5% of GDP.

As expected, both private consumption and gross fixed capital formation (GFCF) expanded in the latter part of 2024, on the back of improvements in several of their fundamentals. Business and household expectations have rebounded. The labor market continues to show limited slack, in a context in which different sources show an increase in employment at the margin and real annual wage growth continues to be above the average of the last decade. In turn, the latest survey by the Capital Goods Corporation (CBC) reinforced the outlook for higher investment amounts in large-scale projects in the short term. In any case, there is still an important difference in the dynamism of investment between the mining sector and the rest of the economy.

The external outlook has become more complex, with uncertainty rising sharply. The main developments are related to the escalation of geopolitical tensions. The announcement of tariffs by the U.S. administration and the response of the affected countries have dominated the agenda. The unfolding military conflicts have also drawn significant attention.

Concerns about global growth have increased, especially in the United States, where services inflation continues to show persistence. Although the data for the end of 2024 and the beginning of 2025 maintain the trends of previous quarters in that economy, agents have reduced their growth projections. Meanwhile, the inflation expectations have risen, in line with the higher costs brought about by the trade war. This combination of lower growth and higher inflationary pressures creates a complex scenario for the Federal Reserve, which in its recent meetings has maintained the federal funds rate.

Risk perception has increased in global financial markets, although with markedly different patterns compared to recent years (Box I.1). This is partly due to the fact that the economic repercussions of the recent tariff measures are, for the time being, estimated to weigh more in the United States than in other economies. Thus, in the former, doubts about future growth and the preference for safe assets have led to a fall in stock markets and a drop in long-term interest rates. In other economies, reactions have been mixed. In Europe, there has been a rise in long rates and stock markets. In China, stock market returns have also risen significantly. All this against a background of higher expectations for fiscal spending. These developments have caused a global weakening of the dollar.

In the local financial market, the strengthening of the peso and the positive performance of the stock market stand out. At the statistical cut-off of this IPoM, the peso/dollar parity has decreased by just over 4% with respect to the previous statistical cut-off, although in the meantime it had a substantial increase that placed it above $1.000 during several days in January. In addition to the behavior of the global dollar, this has been affected by the rise in the copper price and the changes in the domestic and international monetary policy outlook. In turn, the IPSA has reached record highs, accumulating gains of slightly more than 10% with respect to the close of 2024.

Projections

The projections for activity and demand are revised moderately upward from the December IPoM. The forecast growth range for this year is raised to 1.75%-2.75%. For 2026 and 2027, it is estimated between 1.5% and 2.5%, all figures around the Chilean economy's medium-term trend growth.

This projection considers that the greater momentum of recent months —especially in export sectors— leave a higher starting point for the short term. Plus, the improvement in some of the aforementioned domestic spending fundamentals, such as business and household expectations and the CBC survey.

On the other hand, the deterioration of the external scenario is expected to have limited effects on local activity, focused more on the medium term. In the central scenario, the expected growth of Chile's trading partners is reduced, especially for 2026. The biggest correction is seen in the United States, which affects the expected expansion of Chilean exports by that year. For 2025, the adjustment is smaller due to the higher starting point left by China's activity data at the end of 2024. However, if the risk scenarios do materialize, their effects would be greater, depending on how the transmission channels behave in both the commercial and financial spheres (Boxes I.1 and I.2). In any case, the doubts surrounding these scenarios are relevant. In the immediate term, there have even been favorable movements in some variables, such as our trading partners.

Compared to the December IPoM, the current central scenario contemplates somewhat faster growth rates for household consumption and GFCF in 2025 and maintains the estimates for 2026. For the former, growth of 2% is expected in both years, while investment is expected to grow by 3.7% and 2.2%, respectively. Projections for 2027 are at 2% and 2.9% for each of these components of private spending.

The central scenario considers fiscal spending similar to that projected in December. For 2025, it considers the approved Budget Law, including the expenditure cut presented in the latest Public Finances Report. Thereafter, it considers the committed expenditures reported in said Report.

Inflation forecast continues to anticipate that it will converge to the 3% target at the beginning of 2026. This assumes that, over the projection horizon, the real exchange rate (RER) will maintain the levels prevailing at the statistical cut-off of this IPoM. Added to this is the impact of the recent decline in international fuel prices on the volatile component. This is partly offset by a higher projection for services inflation and somewhat higher demand.

Annual inflation will decline rapidly during the second half of 2025 and early 2026, considering the high bases of comparison resulting from higher electricity prices and the depreciation of the peso in the latter part of 2024. The CPI variation is expected to end the first half of this year above 4.5% annually, falling to 3.8% in December and stand around 3% in the first quarter of 2026. From then on, it will hover around the target. Non-volatile inflation will also be around 3% at the beginning of 2026.

Monetary policy

Although in general terms the macroeconomic scenario has evolved as expected, the overall background information at hand points to an inflationary outlook that continues to face significant risks, stressing the need for caution. This considers the simultaneous rise in different cost pressures of recent months, in a scenario where various margin measures point to a reduction during 2024 (Box I.3). In any case, some factors have eased lately, such as the aforementioned appreciation of the peso and the drop in external fuel prices. Against this backdrop, some indicators of two-year inflation expectations remain above 3%.

Meanwhile, the risk configuration facing domestic activity and spending has been changing. Scenarios with a less favorable evolution of some internal forces and their negative effects on the local economy have become less likely. Overall, the Board will remain alert to the possibility of more disruptive events at the international level and their economic and financial impacts.

The Board will assess the next movements of the MPR bearing in mind the evolution of the macroeconomic scenario and its implications for the inflationary convergence. Furthermore, the Board reaffirms its commitment of conducting monetary policy with flexibility, so that projected inflation stands at 3% over the two-year horizon.

The sensitivity scenario at the upper bound of the MPR corridor represents inflation remaining high for longer. This could be the case in the event that inflationary persistence exceeds its historical patterns and domestic demand grows more than expected. This would result in a greater pass-through of costs to prices, considering also the aforementioned compression of business margins.

On the lower bound, a scenario could materialize in which the negative impact of tariff measures and greater global uncertainty would be accentuated. A deepening of the trade conflict and a greater impact through financial channels cannot be ruled out. This could dampen expectations and spending by firms and households, significantly reducing inflationary pressures, which would require implementing faster cuts to the MPR.

Pending further information, the central scenario of this IPoM considers that the impacts of changes in the international scenario on the Chilean economy are still contained. However, there are risk scenarios in which these effects could be considerably greater. A major change with respect to previous situations is that events with significantly detrimental consequences in the world economy and in Chile have increased their probability of occurrence. The effects would be particularly harmful if a scenario of greater trade tensions were combined with more significant disruptions in the framework of the political alliances that have characterized developed countries since World War II, raising the probability of military conflicts. The more severe financial repercussions of episodes like these are added. In such situations, monetary policy would have to make substantial adjustments to support the convergence of inflation to the target.

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

	2023	2024		2025 (f)		2026 (f)		2027 (f)
		Dec.24 IPoM	Mar.25 IPoM	Dec.24 IPoM	Mar.25 IPoM	Dec.24 IPoM	Mar.25 IPoM	Mar.25 IPoM
Average CPI	7.3	3.9	3.9	4.6	4.4	3.1	3.0	3.0
December CPI	3.4	4.8	4.5	3.6	3.8	3.0	3.0	3.0
CPI in around 2 years (3)						3.0		3.0
Average core CPI	7.5	3.8	3.8	3.9	3.8	3.1	3.0	3.0
December core CPI	4.7	4.5	4.3	3.3	3.3	3.0	3.0	3.0
Core CPI around 2 years (3)						3.0		3.0

(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 December 2024 IPoM corresponds to inflation forecast for the fourth quarter of 2026, for March 2025 IPoM to inflation forecast for the first quarter of 2027. (f) Forecast.
Sources: Central Bank of Chile and National Statistics Institute (INE).

TABLE 2: INTERNATIONAL SCENARIO

	2023	2024		2025 (f)		2026 (f)		2027 (f)
		Dec.24 IPoM	Mar.25 IPoM	Dec.24 IPoM	Mar.25 IPoM	Dec.24 IPoM	Mar.25 IPoM	Mar.25 IPoM
				(annual change, percent)				
Terms of trade	1.9	0.9	4.4	-0.5	2.6	1.0	2.0	0.9
Trading partners	3.5	3.2	3.3	2.9	2.7	2.8	2.5	2.8
World GDP at PPP	3.5	3.3	3.3	3.0	2.7	3.0	2.7	3.1
Developed GDP at PPP	1.7	1.6	1.6	1.6	1.2	1.7	1.3	1.9
Emerging GDP at PPP	4.7	4.4	4.4	3.9	3.6	3.8	3.6	3.9
				(levels)				
LME copper price (US$cent/pound)	385	415	415	420	425	430	430	430
Oil price, average WTI-Brent (US$/barrel)	80	78	78	71	69	69	67	66

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

TABLE 3: INTERNAL SCENARIO
(annual change, percent)

	2023	2024		2025 (f)		2026 (f)		2027 (f)
		Dec.24 IPoM	Mar.25 IPoM	Dec.24 IPoM	Mar.25 IPoM	Dec.24 IPoM	Mar.25 IPoM	Mar.25 IPoM
GDP	0.5	2.3	2.6	1.5 - 2.5	1.75 - 2.75	1.5- 2.5	1.5 - 2.5	1.5 - 2.5
Domestic demand	-3.7	1.1	1.3	1.9	2.5	2.1	2.2	2.3
Domestic demand (w/o inventory)	-2.7	0.9	0.7	2.2	2.6	2.3	2.3	2.4
Gross fixed capital form	-0.1	-1.3	-1.4	3.6	3.7	2.2	2.2	2.9
Total consumption	-3.5	1.5	1.4	1.8	2.3	2.4	2.3	2.3
Private consumption	-4.9	1.1	1.0	1.6	2.0	2.0	2.0	2.0
Goods and services exports	0.1	5.6	6.6	3.8	4.3	2.8	2.4	2.8
Goods and services imports	-10.9	1.7	2.5	4.2	5.6	3.1	3.0	3.8
Current account (% of GDP)	-3.2	-2.4	-1.5	-2.3	-1.9	-2.3	-1.8	-2.0
Gross national saving (% of GDP)	20.2	20.4	21.7	19.7	21.5	20.0	21.7	21.8
Gross fixed capital formation (% of nominal GDP)	24.2	23.6	23.5	23.1	23.7	23.6	24.0	24.3

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

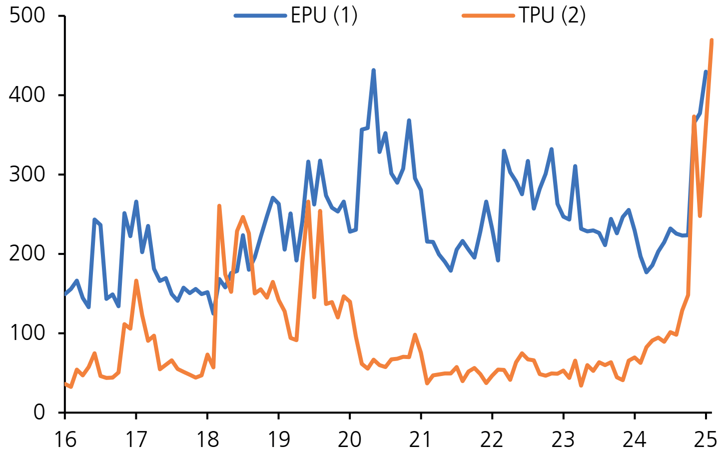
I. RECENT EVOLUTION OF THE MACROECONOMIC SCENARIO

Although global activity has been generally in line with what was expected in the last IPoM, the external scenario has incorporated higher levels of uncertainty following tariff measures and geopolitical risks. This has heightened doubts about global growth, particularly in the United States, leading to a decoupling of the American economy's financial markets from the rest of the world. Global inflation has slowed down its declining pace and the monetary policy outlook has become more contractionary in some countries, especially in Latin America. In the domestic scenario, inflation was in line with expectations, although it is still high. In February, headline and core indicators —the CPI without volatile items— stood at 4.7% and 3.9% respectively in annual terms. Two-year inflation expectations remain above the 3% target in some measurements. Regarding activity, in 2024 it grew above what was anticipated in the December Monetary Policy Report (IPoM) thanks to the export sector, which supported areas such as agriculture, manufacturing, and wholesale and retail trade. This momentum was maintained at the beginning of 2025. In domestic and final demand, both private consumption and gross fixed capital formation (GFCF) have followed a path of gradual recovery. Various fundamentals suggest that this trend would continue in the future. The banking credit does not show major changes.

THE INTERNATIONAL SCENARIO

In recent months, the international scenario has been marked by a surge in uncertainty and risks, mainly reflecting the evolution of the trade and geopolitical front (Figure I.1). The tariffs announced and implemented by the new United States administration, plus possible retaliatory measures by the affected economies and a possible reconfiguration of international trade, could have negative impacts on global growth, although their scope and magnitude are yet to be known. There are also other developments in geopolitical issues and military conflicts. Against this background, several countries have announced significant increases in defense spending, which has put further pressure on the world's complex fiscal situation.

FIGURE I.1 UNCERTAINTY INDICATORS
(index)



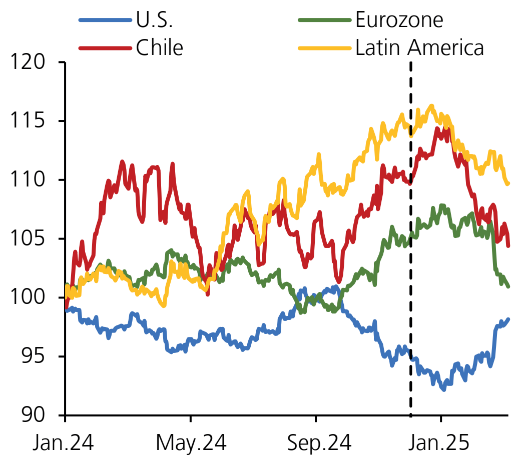
(1) *E*conomic Policy Uncertainty Index. (2) Trade Policy Uncertainty Index.
Sources: Baker, Bloom & Davis (2016) and Caldara, Iacoviello, Molligo, Prestipino & Raffo (2020).

Risk perception has risen in global financial markets, which have shown dissimilar movements among countries in recent months (Figure I.2). Since the December IPoM, long-term interest rates have risen in several economies, especially in Europe. This has been in response to, among other things, increased geopolitical risk, pressures for higher defense spending and a possible improvement in growth expectations in Germany following fiscal announcements. In the United States, the long rates rose sharply up to mid-January, and have reversed in recent weeks. Part of this reversal can be explained by concerns about growth, which have rebalanced preferences for variable income assets in favor of U.S. Treasury bonds. As for other variables, short-term interest rates have shown heterogeneous variations and the dollar has weakened globally. The United States stock markets have fallen sharply since the end of February, largely due to the high uncertainty regarding trade and its potential effects on the country's economic activity. In contrast, stock market indicators in other countries have performed more favorably in recent weeks, benefiting from, among other factors, a perception of lower risk at home compared to that of the United States and a not so severe deterioration of growth expectations as that of the American economy (Box I.1). In China, stocks in various sectors have favored the stock market's performance, most notably those in the tech industry.

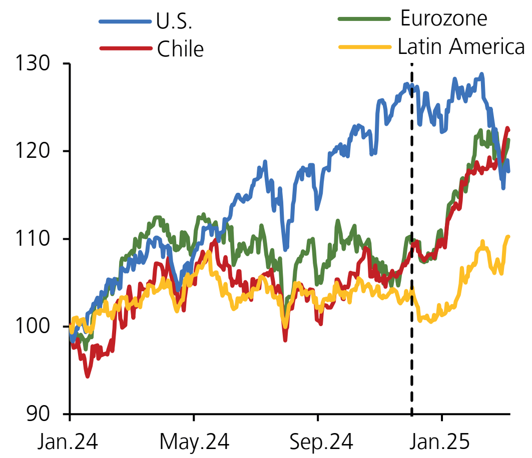
In general terms, in the fourth quarter of 2024, global activity evolved as expected in the last IPoM. In the United States, the acceleration of private consumption stood out. The latter variable showed dynamism across the board, especially in durable goods. Investment performed more poorly, affected by the fall in the non-residential component, in contrast to the greater dynamism of the residential part. Government spending, on the other hand, rose at a slower pace than in the third quarter. All this in a scenario where fears about an overadjustment of the labor market have been subsiding.

FIGURE I.2 FINANCIAL CONDITIONS

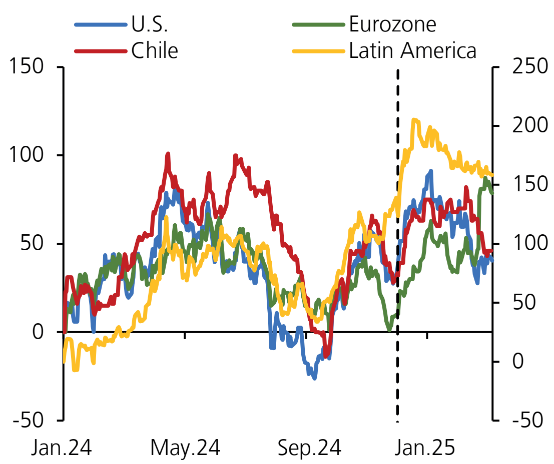
a) Currencies (1) (2) (3)
(index 01.Jan.24=100)



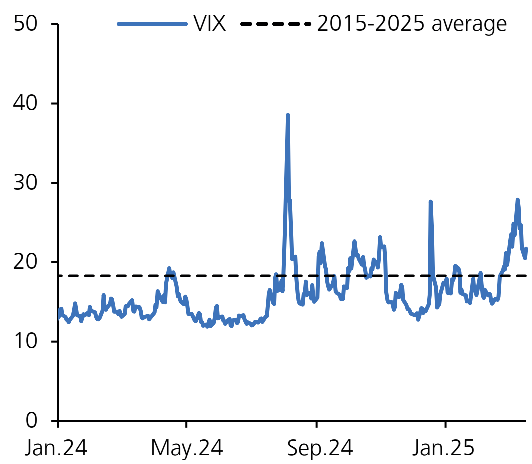
b) Stock markets (1) (2)
(index 01.Jan.24=100)



c) Interest rates on nominal 10-year bonds (1) (2) (4)
(difference with respect to 01.Jan.24, basis points)



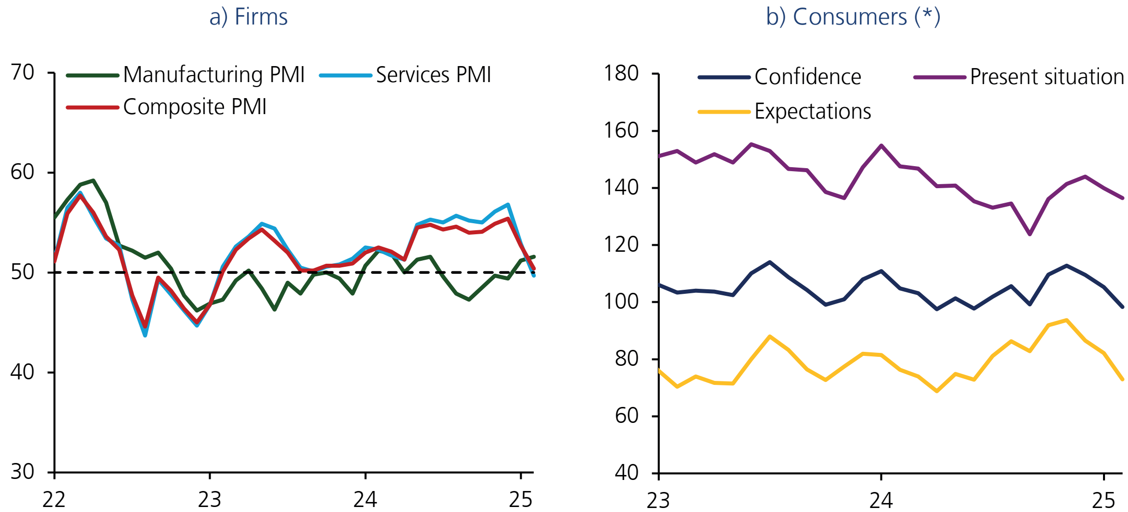
d) Financial volatility
(index)



(1) Dashed vertical line marks statistical closing of December 2024 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) Latin America corresponds to right axis.
Sources: Central Bank of Chile and Bloomberg.

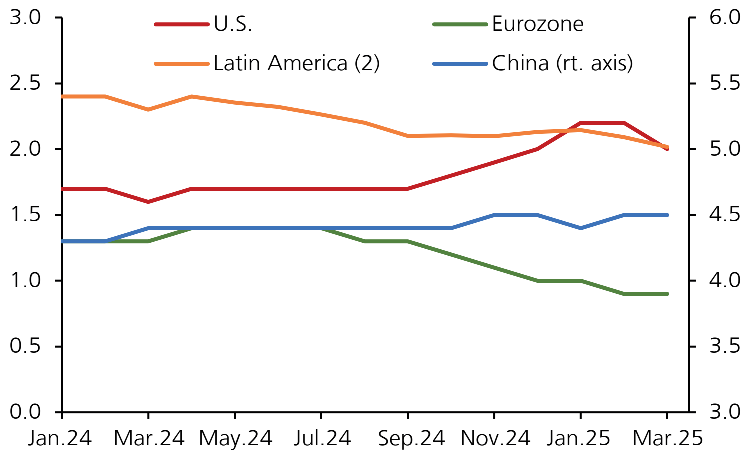
Doubts about the expected growth of the United States economy have begun to be reflected in the market outlook and in some indicators of expectations (figures I.3 and I.4). The PMI data published in February showed a downward adjustment, with two contrasting elements: on the one hand, the manufacturing indicator was boosted by higher demand in anticipation of possible price increases and/or supply disruptions due to the new tariffs; on the other hand, a drop in services, which was partly explained by the greater uncertainty regarding demand. Something similar has occurred with some consumer sentiment indicators. This view has been transmitted, at the margin, to the market growth outlook, which has been declining (Figure I.4).

FIGURE I.3 EXPECTATIONS INDICATORS IN UNITED STATES
(index)



(*) Corresponds to the Conference Board Consumer Confidence Survey.
Sources: Bloomberg and Conference Board.

FIGURE I.4 CONSENSUS GROWTH FORECAST FOR 2025 (1)
(percent)



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

In China, the acceleration of activity during the fourth quarter enabled it to meet the growth target set by its authorities for 2024. The greater dynamism in the fourth quarter was largely explained by the strong expansion of exports. This may have been due to an increase in external demand ahead of the implementation of tariffs, and to the stimulus measures adopted in previous quarters. Looking ahead, the market's growth expectations show no big changes. This, in a scenario where certain doubts persist about the sustainability of the impulse of the past few months, amid the structural challenges that the economy continues to face, such as weak domestic demand and high indebtedness, to name a few. However, the recent reform plan announced by the Chinese government could result in a more favorable outlook for the economy.

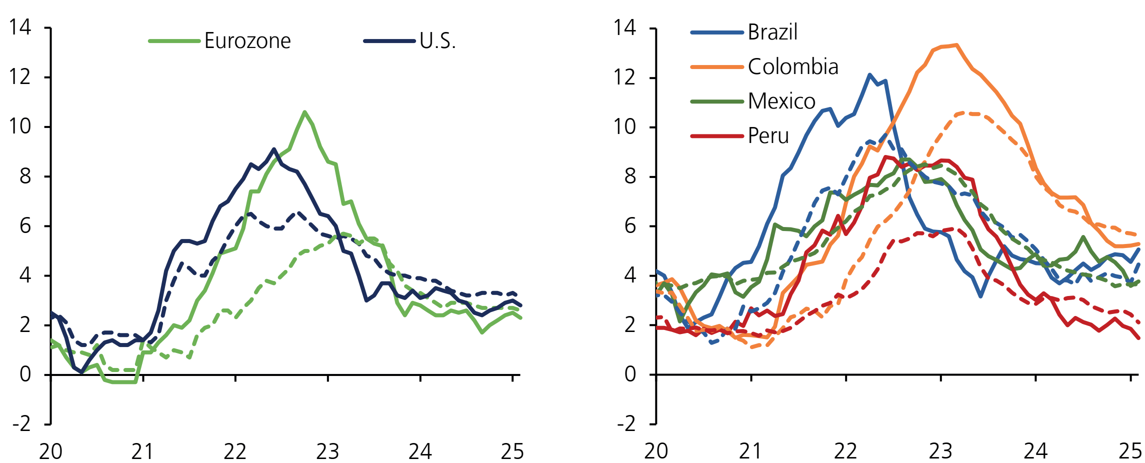
In the Eurozone and in Latin America, growth slowed in the last quarter of last year. The markets' growth forecasts in both regions have weakened (Figure I.4). The European economy stagnated in the fourth quarter, a bloc in which a high degree of heterogeneity prevails across countries and sectors, highlighting the contrast between the more favorable performance of services and the sluggish manufacturing sector. Among countries, the quarterly decline in Germany and France stood out, in contrast to growth in Portugal and Spain. In Latin America, activity slowed significantly in Mexico and Brazil, the main economies of the region.

The monetary policy outlook has turned more contractionary in some economies, especially Latin American ones. This occurs in a context where global inflation has slowed its rate of decline in some countries and has even shown some rebound in others (Figure I.5). In the United States, the Federal Reserve (Fed) paused its rate-cutting cycle at its most recent meetings. At the March meeting, this was accompanied by upward projections for inflation and downward projections for growth. This is influenced by the expected impacts of tariff measures already implemented or that could materialize in the near future, which has also raised consumers' short- and medium-term inflation expectations (Figure I.6). In Latin America, Colombia's monetary authority surprised with a pause at its January meeting and Peru maintained the benchmark rate at its latest meetings, in line with expectations. Meanwhile, Brazil accumulated increases of 200bp since the last IPoM, in a context of above-target inflation expectations and a still tight labor market. At the same time, the European Central Bank has continued to cut its benchmark interest rates, while the Bank of England paused the process at its March meeting.

FIGURE I.5 WORLD INFLATION (1) (2)
(annual change, percent)

a) Developed economies

b) Latin America (3) (4)

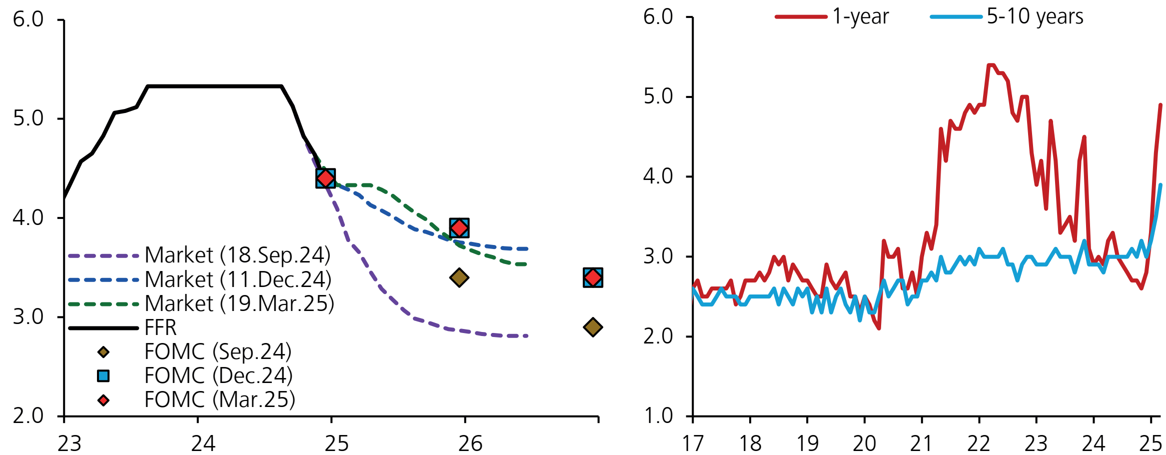


(1) Dashed lines correspond to core inflation. (2) Core figures exclude foods and energy. (3) Perú headline inflation corresponds to Lima. (4) Core inflation for Brazil, Colombia and Peru excludes foods and fuel.
Source: Bloomberg.

FIGURE I.6

a) Fed funds rate (1)
(percent)

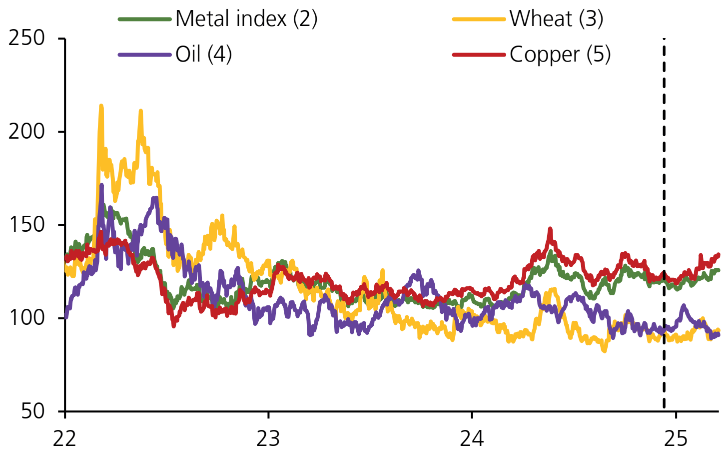
b) Consumers' inflation expectations (2)
(percent)



(1) FOMC projections correspond to the mid-range of the fed funds rate presented in Sep.24, Dec.24 and Mar.25, market projections are for the mid-range of the fed funds rate of futures at the September 2024 FOMC (18.Sep.24), statistical closing of the December 2024 IPoM (11.Dec.24) and March 2025 FOMC (19.Mar.25). (2) Correspond to University of Michigan Surveys of Consumers' inflation expectations.
Sources: U.S. Federal Reserve, Bloomberg and University of Michigan.

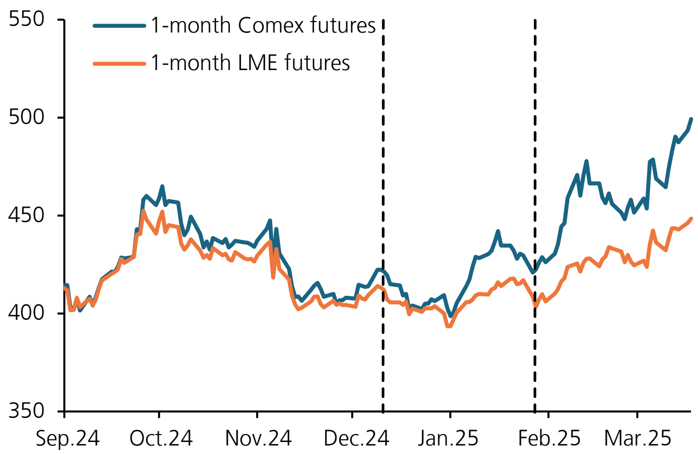
Commodity prices have shown mixed movements, as the copper price rose and the oil price fell (Figure I.7). In the former, the quoted price on the London Metal Exchange (LME), with fluctuations, rose by around 8% since the last IPoM. The reactivation of demand after the Chinese New Year, expectations of greater stimulus in that country and the global weakening of the dollar have contributed to its evolution, factors that have also influenced the prices of the other commodities. Likewise, the announcement of an investigation to determine potential tariffs on copper imports by the United States has had an upward impact mainly on the price of copper listed on the New York Mercantile Exchange (Comex), widening its differential with the LME price, which would be influenced to some extent by arbitrage operations and doubts about the supply of the metal in said country (Figure I.8). The price of oil has also fluctuated significantly. After rising in December and January, prices have reversed due to a more favorable supply outlook and increased concerns about global growth prospects. At the statistical closing of this Report, the price of a barrel of oil (WTI-Brent average) had fallen by around 3% compared to the December IPoM. Regarding food prices, the FAO food price index saw a rebound in February, although it remains below the level of last November (the latest data available at the closing of the December Report). Recent increases in the sugar, dairy, and vegetable oil indices are worth noting.

FIGURE I.7 COMMODITY PRICES (1)
(index, average 2010-2025=100)



(1) Dashed vertical line marks statistical closing of December 2024 IPoM. (2) S&P GSCI Industrial Metals. (3) Prices of futures one-month ahead. (4) WTI-Brent average. (5) Corresponds to LME price.
Source: Bloomberg.

FIGURE I.8 ONE-MONTH COPPER FUTURES IN LONDON AND NEW YORK (*)
(cents per pound)



(*) Left dashed vertical line marks statistical closing of December 2024 IPoM. Right dashed vertical line marks U.S. first announcement of possible tariffs on copper imports.
Source: Bloomberg.

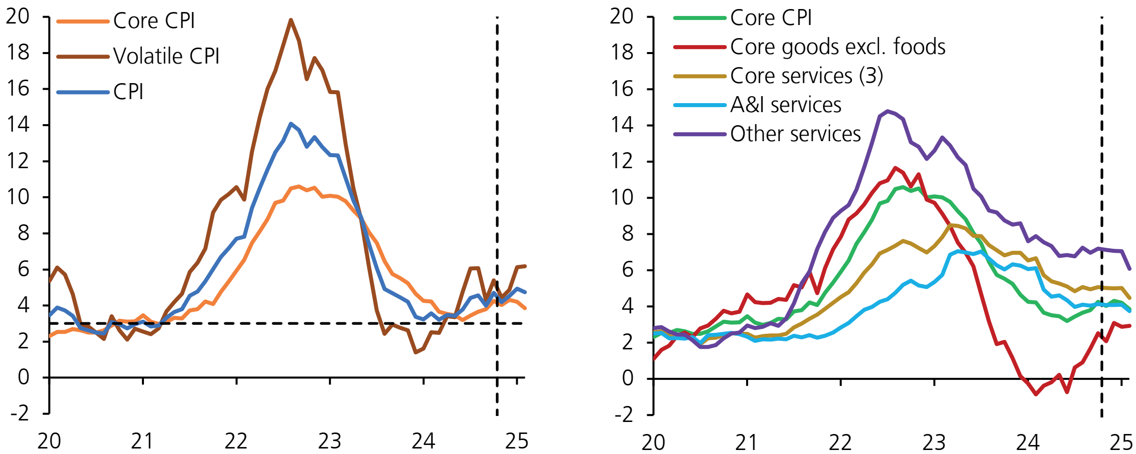
THE DOMESTIC SCENARIO

Inflation has evolved in line with expectations but remains high. In February, the annual variation of headline CPI stood at 4.7% while CPI without volatile items was 3.9% (Figure I.9)[1]/. The contribution of volatile components in recent months stood out, mainly the price adjustment of electricity in January. After this last revision, electricity supply has accumulated a direct impact of 1.25 percentage points on inflation since mid-2024, very similar to forecasts in last year's June IPoM.[2]/ This was compounded with the increase in fuel prices and a higher contribution of some volatile goods and services (Figure I.10). With respect to core inflation, goods inflation —excluding foods— rose in annual terms, significantly influenced by the exchange rate depreciation of late 2024. Meanwhile, food inflation had marked fluctuations between December and January. Services inflation has remained high, although with an annual deceleration in February that was explained by the February 2024 comparison base effect.

FIGURE I.9

a) Inflation indicators (1) (2)
(annual change, percent)

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

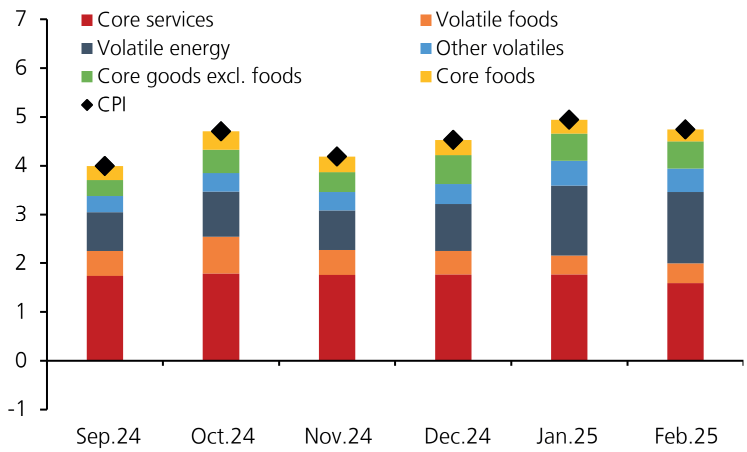


(1) Series consider the 2023 CPI reference basket with the BCCh splice. (2) Dashed vertical line marks statistical closing of December 2024 IPoM. (3) Considers the sum of administered and indexed services (A&I) and Other services.
Sources: Central Bank of Chile and National Statistics Institute (INE).

The evolution of headline inflation was in line with the forecasts in the last IPoM, although with offsetting differences between volatile and non-volatile components. Over the last three months, cumulative volatile inflation exceeded projections. This was particularly the case for fuels, due to higher-than-expected international prices and the exchange rate depreciation that occurred between December and January. In contrast, core inflation was lower than expected, as food prices were well below their historical patterns in December, and goods inflation —excluding foods— was lower than expected in February, which was partially offset by somewhat higher-than-expected services inflation.

[1]/ The numbers consider the 2023 CPI benchmark basket and the splicing made by the Central Bank of Chile.
[2]/ This, following the approval of the corresponding law in April 2024, which modified utility price adjustment mechanisms and legislated on the charges to be added, making it possible to estimate the magnitudes of the adjustments (Box II.1 in June 2024 IPoM).

FIGURE I.10 CONTRIBUTIONS TO ANNUAL CPI
(contributions, percentage points)



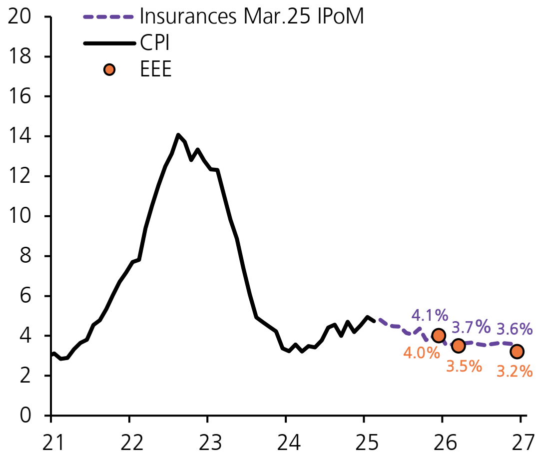
Sources: Central Bank of Chile and National Statistics Institute (INE).

Inflation dynamics have been consistent with continued high cost pressures, although with some recent reduction linked to the evolution of the exchange rate. This variable has been very volatile in recent months, with a significant depreciation until the end of January. Since February, this trajectory has been reversed, due to the global weakening of the dollar, the evolution of the interest rate differential with respect to other economies and the improved copper price, among other causes. At the closing of this IPoM, the peso/dollar parity had fallen by slightly more than 4% compared to the close of the December Report (Figure I.2). However, other cost factors have remained high, such as labor and energy costs. These factors emerge as the main sources of costs reported by the firms consulted for our Business Perceptions Report (IPN) of February. This situation is corroborated by the results of the Business Perceptions Survey (EPN) of the same month, which shows that the firms still perceive costs as high, and at the same time that the pass-through of these costs to sales prices has been rising (see Figure I.28).

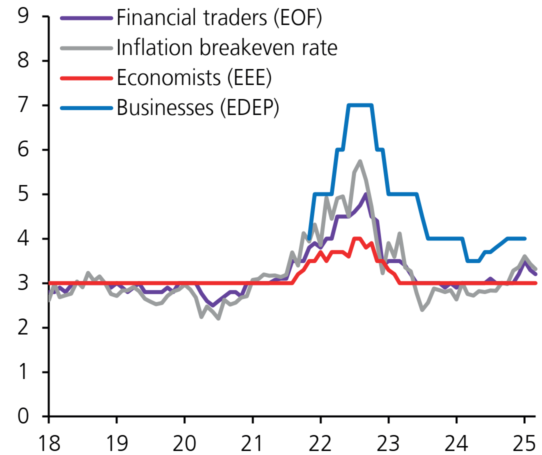
In this context, some measurements of two-year inflation expectations are above the 3% target (Figure I.11). The March Financial Traders Survey (EOF) projects an inflation of 3.2% over the monetary policy horizon and breakeven inflation rates anticipates a figure of 3.3% for the same period, after reaching higher levels in January in both cases. Meanwhile, the March Economic Expectations Survey (EEE) continues to foresee that inflation will remain at 3.0% in two years. In the short term, the EEE anticipates that inflation will end this year at 4.0%, while inflation insurances foresee it ending this year at 4.1%. Lastly, the respondents to the February EPN continue to believe that, in twelve months, inflation will be "above its normal level."

FIGURE I.11

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



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

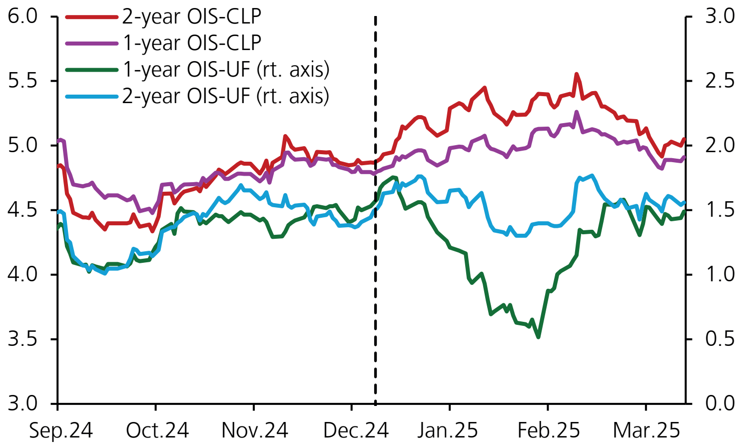


(1) Series consider the 2023 CPI reference basket. Insurances consider average prices of the last ten days as of March 18th. (2) For surveys, median of responses are shown. (3) EOF considers the survey of the first half of each month until January 2018. From February 2018 onwards, it considers the last survey published in the month, including the one prior to the March 2025 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 March 2025 it uses the average of the last ten days as of March 18th.

Source: Central Bank of Chile.

Global market trends and the increase in local inflation explain an important part of the movements in the local financial market (figures I.2 and I.12). Between December and mid-February, short-term nominal interest rates rose, but have been reversed in the last few weeks, following global movements. Considering the average of the 10 days prior to the closing of this IPoM, they are somewhat above those at the close of December's. For their part, short-term real rates fell until the end of January, in line with breakeven inflation. Lately, they have returned to levels not very different from those at the closing of the December Report. Similarly, long-term interest rates have fallen back in recent weeks, after increases in December and January. At the closing of this IPoM, they were slightly above the level at the close of the December Report. The IPSA, in turn, has reached record highs, with cumulative gains of somewhat more than 10% with respect to the close of 2024, influenced by the lessening of some sources of local uncertainty and the greater flows in recent months from the United States to both emerging and developed economies less exposed to commercial conflicts.

FIGURE I.12 NOMINAL AND REAL SHORT-TERM INTEREST RATES (*)
(percent)



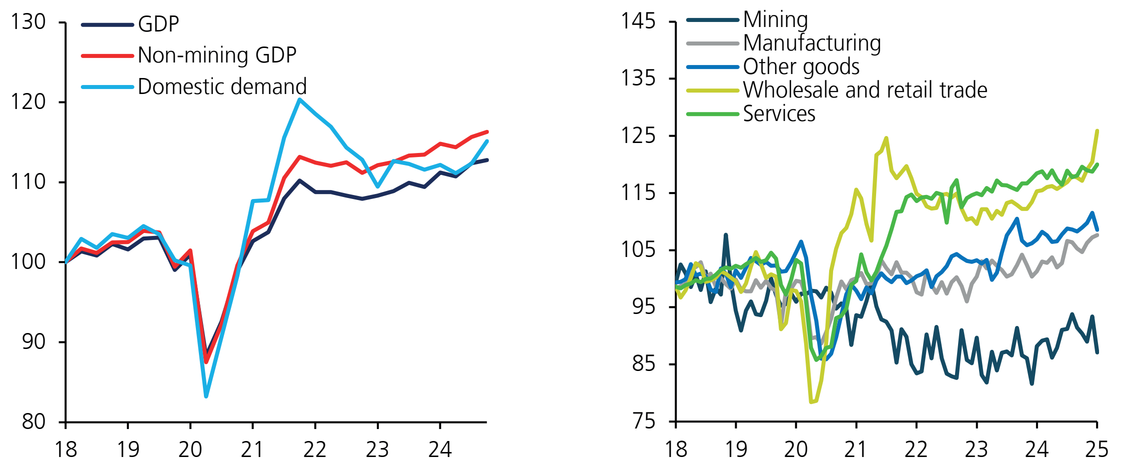
(*) Dashed vertical line marks statistical closing of December 2024 IPoM.
Source: Central Bank of Chile.

Domestic activity in the fourth quarter of 2024 grew more than anticipated in the December IPoM, thanks to the boost in exports (Figure I.13). In that period, non-mining GDP had a quarterly variation (q/q) of 0.6% in its seasonally adjusted series (3.7% annually). This was influenced by the performance of the export sector, which supported areas such as agriculture and wholesale trade (due to greater fruit production, especially cherries[3/]), some manufacturing lines (particularly fishery-related foods) and retail trade and services (due to increased inbound tourism[4/]). With this, total GDP grew 2.6% in 2024 (2.3% considered in the previous IPoM). Recent data on monthly activity show that this export momentum was maintained at the beginning of 2025 (Figure I.13). The seasonally adjusted non-mining Imacec for January grew 1.2% month-on-month (2.8% annually), a result in which the aforementioned items once again stood out.

FIGURE I.13

a) Activity and demand
(index 1Q2018 = 100, real seasonally adjusted series)

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



Source: Central Bank of Chile.

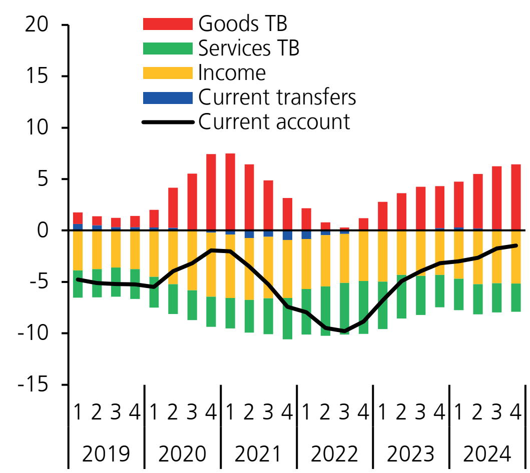
3/ For details, see Blog "Contribución y perspectivas del sector agropecuario-silvícola en la actividad", February 2025.
4/ For details, see Blog "Turismo receptivo en Chile: Algunas tendencias y su impacto en la economía", March 2025.

The good results of the export sector, together with the revision of the balance of payments figures, explained the decrease in the current account deficit in 2024 (Figure I.14). This reached 1.5% of GDP in the cumulative annual sum (which compares with the 2.4% of GDP considered in the previous IPoM). On the real exports of goods and services side, those linked to mining and fruit production stood out. Regarding imports, they increased significantly during the last quarter of the year, particularly those of consumption, capital and intermediate goods. Along with this, the latest revision of the balance of payments figures showed a smaller deficit in investment income remitted abroad in 2024 and previous years, contributing in turn to the improvement of the current account deficit.

FIGURE I.14

a) Exports of goods and services
(index 1Q2018 = 100, real seasonally adjusted series)

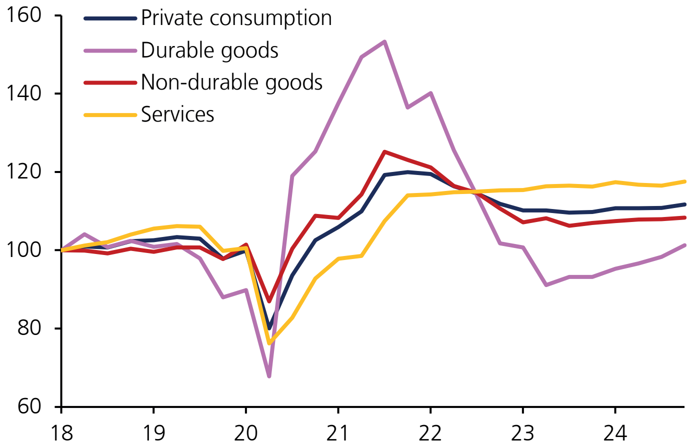
b) Current account, contributions by component
(percent of GDP, cumulative annual sum)



Source: Central Bank of Chile.

On the demand side, private consumption has remained on a gradual recovery path in recent months (Figure I.15). In seasonally adjusted terms, it increased 0.8% in the fourth quarter, ending the year 2024 with an annual growth of 1.0%, around what was expected in the last IPoM. High-frequency indicators —such as the Retail Trade Activity Index (IACM), sales through Transbank and Getnet, and consumer imports— show that this trend has continued so far this year, although these figures would also be influenced by the increase in non-resident spending. Government consumption contracted by 1.8% annually in the fourth quarter, in line with the fall in fiscal spending during the latter part of last year. All in all, the latest Public Finance Report revealed an effective and structural fiscal deficit of 2.9% and 3.2% in 2024, respectively, above the Ministry of Finance's previous estimates.

FIGURE I.15 PRIVATE CONSUMPTION BY COMPONENTS
(index 1Q2018 = 100, real seasonally adjusted series)



Source: Central Bank of Chile.

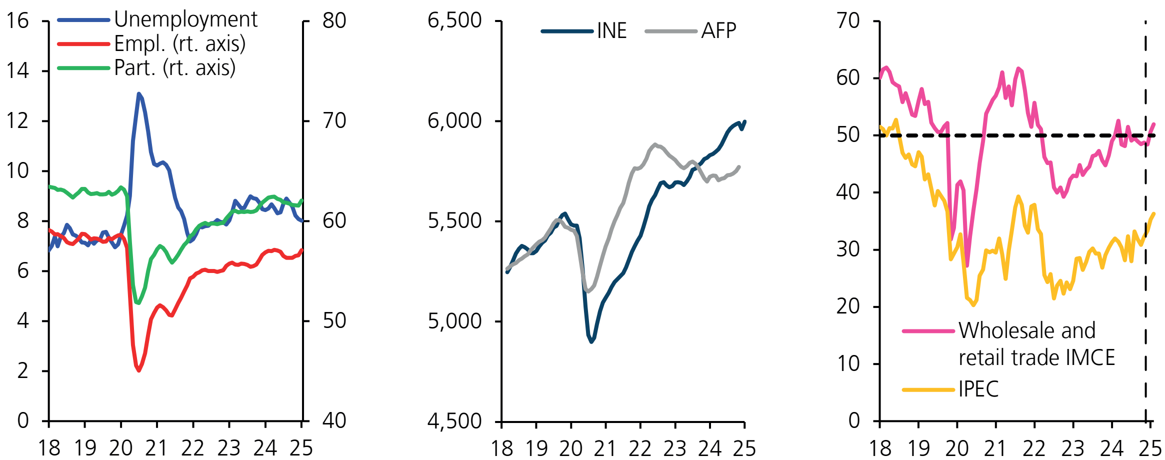
The fundamentals of private consumption have recently shown signs of some recovery (Figure I.16). The unemployment rate for the moving quarter ending in January reached 8.0% (8.3% in seasonally adjusted terms). Data from administrative records, such as the variation of contributors to the pension fund system (AFP), also improve at the margin. The annual growth of real wages remains high, beyond some moderation since mid-2024. All this in a context in which household expectations (IPEC) complete several months on the rise and the outlook for wholesale and retail trade firms (IMCE) is slightly above the neutral value.

FIGURE I.16

a) Unemployment, employment and participation rate (percent)

b) Contributors to pension funds (1) (Thousands of people, seasonally adjusted series)

c) Wholesale and retail trade IMCE and IPEC (2) (3) (difusion index)



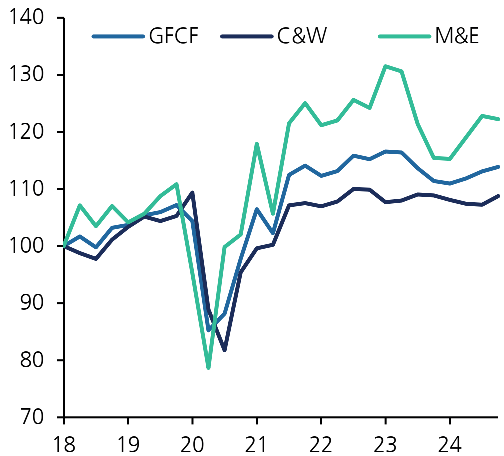
(1) Considers the quarterly moving average and internal seasonal adjustment. (2) Value above (below) 50 indicates optimism (pessimism). (3) Vertical line corresponds to the December 2024 IPoM.
Sources: National Statistics Institute (INE), Superintendence for Pensions, ICARE/UAI and GfK Adimark.

GFCF has also been picking up (Figure I.17). In the fourth quarter it grew 0.7% q/q, accumulating three quarters of growth in the seasonally adjusted series. Recent momentum has come mainly from the machinery and equipment component. In the February IPN, interviewees from the Northern Macrozone linked to the mining sector stated that, for this year, they expect greater investment than in previous periods, aimed at increasing production capacity and adopting new technologies, among others. The improvement of the GFCG outlook is also consistent with what was reported by the Capital Goods Corporation —which anticipates an increase in investment by 2025, particularly in the mining and energy sectors— and with the most recent data on capital imports and the construction IMCE.

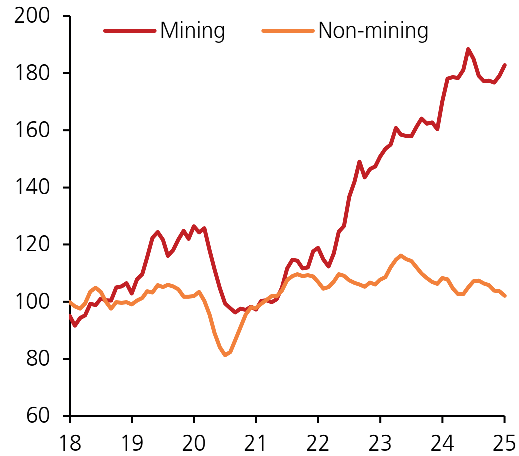
Banking credit does not show major changes recently (Figure I.18). Although the data for the end of 2024, considering the real loan stock and the flows of new loans, had suggested an incipient recovery —especially in the commercial portfolio—, its trajectory has slowed down again. Thus, the consumer, commercial and housing portfolios loans in February registered a more negative annual variation than in the same month of the previous year. Consumer and commercial interest rates continue to show a behavior consistent with the evolution of short-term benchmark rates and the MPR. Mortgage rates remain high, in line with the evolution of longer-term interest rates.

FIGURE I.17

a) Gross fixed capital formation by components
(index 1Q2018 = 100, real seasonally adjusted series)



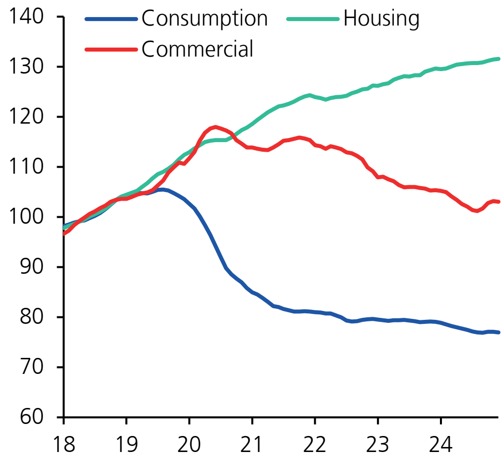
b) Sectoral GFCF: mining and non-mining sectors (*)
(2018 = 100, quarterly moving average, real seasonally adjusted series)



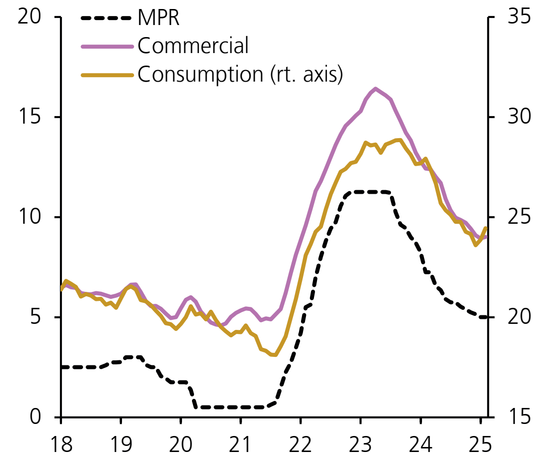
(*) Methodological details are found in the Minute of Boxes of the September 2024 Report.
Sources: Internal Revenue Service (SII), Customs and Central Bank of Chile.

FIGURE I.18

a) Real loan stock (1)
(index 2018 average = 100)



b) MPR and lending interest rates (2) (3)
(percent)



(1) Series adjusted by CPI, using the 2023 reference basket with the BCCh splice, considering its most recent revision. Series correspond to the quarterly moving average. (2) For commercial and consumption rate, weighted average rates of all transactions in Chilean pesos performed each month in the Metropolitan Region (3) For commercial and consumption rates, the quarterly moving average is used; for the MPR, the monthly average is used.
Source: Central Bank of Chile.

Growth expectations for this and next year do not present major changes compared to what was reported in the previous IPoM. The March EEE foresees growth of 2.2% for 2025 and 2.1% for next year (2.0% for both years in the previous IPoM). Consensus Forecasts also anticipate 2.2% growth for this year (same as in December) and for 2026.

Expectations for the MPR are higher than those reported in the previous Report. Regarding shorter-term projections, the EEE and the expectations implicit in the overnight index swap (OIS) place the MPR at 4.75% and 5.0% for December of this year, respectively. In the one-year term, the EEE suggests that it will reach 4.5%, while the EOF and the OIS rates estimate it to be between 4.75 and 5.0%. In the two-year monetary policy horizon, the EEE and the EOF foresee a MPR of 4.25% and 4.5%, respectively, higher than was projected at the close of the December IPoM. Meanwhile, the OIS rates anticipate that, in the monetary policy horizon, the MPR will be 5.0% (also above what was reported at the close of the previous Report).

BOX I.1:

Global financial conditions

Financial markets and asset prices are showing significant reactions to geopolitical announcements, in terms of both commercial relations and strategic alliances between the United States and other countries. The movements of these prices contain information on investors' perceptions regarding different fundamentals, and it is important to identify them in order to explain the financial conditions that are relevant for the Chilean economy and to configure projection scenarios.

Typically, the prices of different asset classes are affected simultaneously by four forces: i) better growth prospects tend to raise stock prices and interest rates, especially at short maturities, ii) risk preference shocks lead investors to shift their positions from safer to riskier assets, driving up stock prices and reducing the value of long-term bonds (raising rates, especially at long maturities) iii) a preference shock for short-term instruments negatively affects the value of long-term assets, lowering stock prices and raising long-term rates, and iv) a contractionary monetary policy shock raises short rates and reduces stock prices.

In light of these mechanisms, it is possible to evaluate the markets' reactions to the announcements that have dominated the international scene in recent months[1]/. Until mid-February, the change of administration in the United States was accompanied by expectations of higher growth there, but at the same time, by a rotation of preferences towards shorter-term assets, given the risks associated with higher fiscal spending (yellow bars in Figure I.19). However, since the end of February, the tariffs announced by the United States on some of its trading partners, and their responses, have dampened growth expectations for the American economy (green bars), while increasing the preferences for safe assets (gray bars). This has reversed stock market gains and long-term rate hikes in the United States.

This is in contrast with what is observed in the rest of the world. Increased risks in the United States has tended to reduce the relative risk of other economies. Added to this are fiscal stimuli in China and Europe, and higher defense spending in the latter, thus boosting stock prices in Europe, Asia and Latin America[2]/. Rates have also risen in Europe, most notably in Germany, where the long rate rose by 30 basis points (bp) on the day of the announcement of a fiscal package for defense and infrastructure of close to 12 points of GDP (figures I.20 and I.21). Moreover, the dollar has depreciated against most currencies (Figure I.22). In terms of the fundamental forces discussed above, this configuration of financial conditions responds mainly to higher growth prospects —relative to the United States— and greater propensity for risky assets in the rest of the world (Figure I.23).

These elements are reflected in this IPoM's central scenario forecasts. On aggregate, heightened geopolitical tensions are expected to have adverse impacts on the global economy. However, such deterioration is concentrated in the United States and in the countries directly affected by the tariffs, while in other developed and emerging economies the short-term impacts would be comparatively minor. In particular, financial conditions for emerging economies —including Chile— will be more favorable than those associated with traditional global risk-off episodes. In the medium term, however, the channels of the higher uncertainty regarding the global economic and geopolitical order and the effects of reduced trade and financial flows would dominate, deteriorating world growth, especially in small and open economies.

[1]/ The interpretation of these forces presented below is based on the methodology being developed by Albagli, Carlomagno, Ledezma and Reszczynski. See also Box I.1 in December 2024 IPoM.

[2]/ For the case of Mexico and Canada, the evolution of financial conditions and their interpretation resembles more closely that of the United States, given their commercial proximity and the announcements made.

Conclusions

The increase in global uncertainty, derived from the emerging commercial and geopolitical fragmentation, is causing significant financial effects, although with some important nuances compared to past events of increased uncertainty.

The divergence in the evolution of asset prices between the United States and the rest of the world is an unusual pattern in comparison with previous episodes. In recent weeks, the increased appetite for risky assets outside the United States has boosted stock markets and currencies in several economies, including emerging ones, and raised the prices of some commodities.

Thus, the global financial conditions described in the central scenario of this IPoM are less contractionary than in a more typical global risk-off scenario. However, the global risk scenarios and the severity of their implications could be significant. Indeed, episodes that were not considered possible in the recent past have become likely, with consequences that, if realized, would be more severe. For example, a scenario of greater commercial tensions could be configured with greater disruptions in the political alliances that have characterized the global order since WWII, increasing the likelihood of military conflicts.

FIGURE I.19

U.S. 10-year interest rate decomposition
(accumulated since 11.Dic.24, basis points)

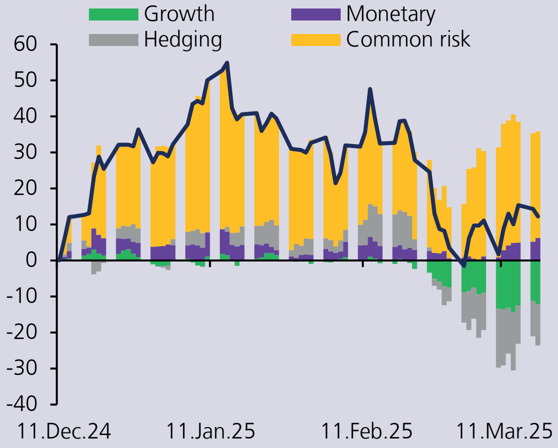
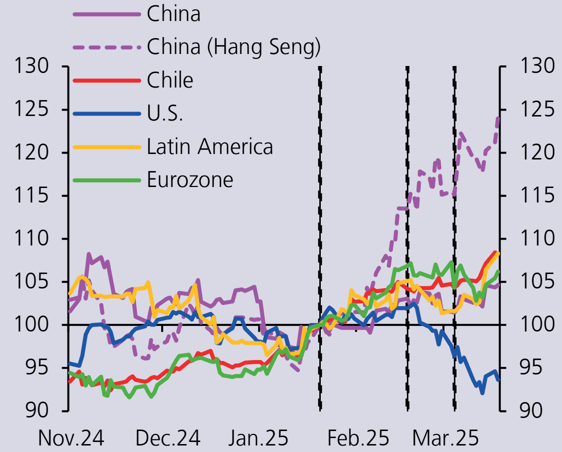


FIGURE I.20

Stock index (*)
(index 100=20.Jan.25)



(*) Vertical lines mark Trump inauguration, the reannoucement of reciprocal tariffs and the fiscal package annoucement in Germany. Latin America corresponds to the average of Brazil and Colombia stock index.
Sources: Central Bank of Chile based on Bloomberg.

FIGURE I.21
10-year interest rates (*)
(accumulated change since 20.Jan.25, basis points)

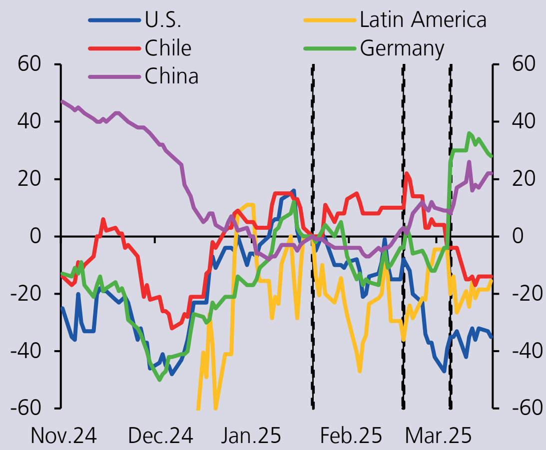
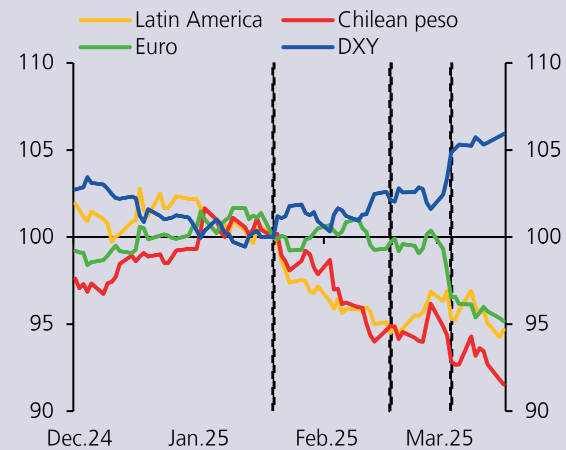
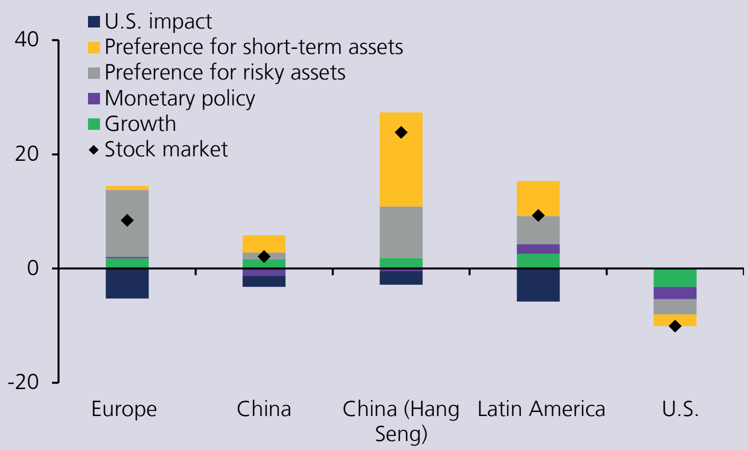


FIGURE I.22
Currencies (*)
(index 100=20.Jan.25, index increase indicates depreciation)



(*) Vertical lines mark Trump inauguration, the reannoucement of reciprocal tariffs and the fiscal package annoucement in Germany. Latin America corresponds to the average of Brazil and Colombia.
Source: Bloomberg.

FIGURE I.23
Stock market decomposition (1) (2)
(accumulated change since 11.Dec.24, percent)



(1) VARX with United States exogenous shock block, based on Albagli, Carlomagno, Ledezma & Reszczynski (2025) methodology. For more details, see Reszczynski et al. (2024). (2) Latin America corresponds to the average of Chile, Brazil and Colombia. Europe corresponds to the average of Germany, Switzerland, Sweden and Norway.
Source: Central Bank of Chile based on Bloomberg.

BOX I.2:

Short-term effects of the new global trade scenario

The new U.S. administration has announced a series of increases to the tariffs it charges some of its major trading partners. While a "trade war" also played out in the first Trump administration, the changes in tariffs now announced are orders of magnitude higher than those in the 2018 episode. In fact, if the announcements come to pass, the average tariff charged on U.S. imports would return to values dating back to 1945 (Figure I.24).

So far, the tariff measures in force mainly affect Canada, Mexico and China, and specific products such as steel and aluminum, as well as European wine. In response, Canada, China and the European Union have announced that they will also impose tariffs on some U.S. products. This box examines the direct and indirect exposure of the Chilean economy to these developments.

Commercial channels

The United States is Chile's second largest trading partner. In 2024, the country exported a total of USD 16 billion to the United States, the equivalent of around 16% of total exports and 5% of GDP[1]/. By sectors, foods and beverages, trade, agriculture & fishery, and timber stand out, with direct exports between USD 800 million and USD 2 billion (green bars in Figure I.25a). Thus, Chile's direct commercial exposure to the American economy is high, which constitutes a significant risk should tariffs be established between the two countries.

Although until now Chile has not been subject to direct tariffs, its exports could still be impacted indirectly, through their insertion in global value chains. An example of this would be Chilean copper used as an input in products that are manufactured in Mexico and then exported to the United States. This is independent of whether the copper arrives in Mexico directly from Chile or via third countries that used the copper to manufacture parts of their products.

Estimates based on the OECD's global input-output matrices suggest that Chile's exposure through its inclusion in global value chains is limited. Considering the measures in force, the total value of exports that could be exposed to any of these sanctions amounts to USD 1.6 billion, equivalent to slightly less than 2% of total exports. By sectors, the most exposed ones are mining, base metals and mining-support services, with proportions of around 2% of the total value of sectoral production (blue bars in Figure I.25b). Indirect exposure via countries or products not currently subject to tariffs is smaller (red bars in Figure I.25).

Other indirect channels refer to possible downturns in global demand and trade diversions, which could impact both exports and imports. Three main channels stand out. First, possible negative impacts on exports through a fall in global aggregate demand. In the central scenario of this IPoM, the downward correction in the growth of trading partners, accumulated in 2025-2026, is 0.5 percentage points (pp) compared to the December scenario, which would affect exports as from the second part of this year. In 2026, these would grow 0.4pp less than in the December scenario. This IPoM also considers a sensitivity scenario of a more pronounced deterioration in global growth as a result of higher tariff barriers and uncertainty, which would magnify its impact on exports.

[1]/ Chile's first trading partner is China, to where 38% of national exports were shipped in 2024 (12% of GDP). For comparison, exports from Canada and Mexico to the U.S. account for around 20% and 27% of GDP, respectively.

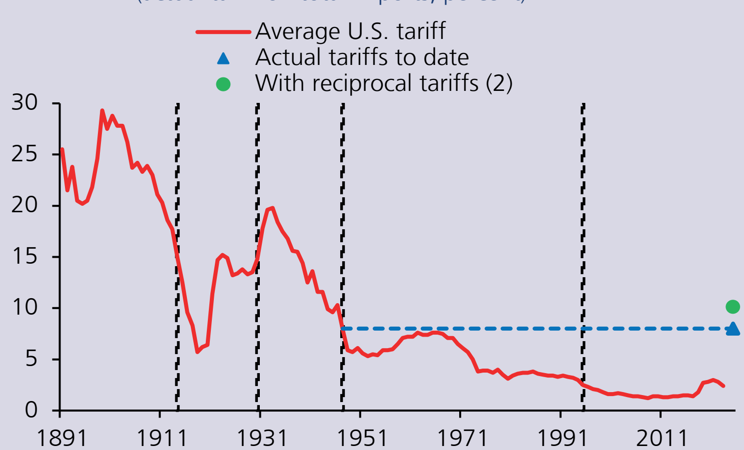
A second channel could be exports being redirected to Chile by the countries affected by tariffs, increasing competition with local production. However, Chile is already a highly open economy exposed to international competition, with limited participation of local import-substituting industries. Hence, a potential increase in external supply could have a somewhat more significant downward effect on inflation in the short term than on local production (Pustilnik and Wlasiuk, 2025).

The third channel refers to possible beneficial effects on Chilean exports due to their greater competitiveness compared to countries affected by tariffs. Despite limited coincidence of the export basket of the most affected countries with local production, there could be some specific industries that could benefit from the tariffs. The timber, plastics, industrial machinery, and wine industries stand out[2]/ (Pustilnik and Wlasiuk, 2025). In any case, the materialization of any positive effects depends on various factors and would take some time to become visible. For example, in 2019, the United States imposed a 25% tariff on wine imports from the European Union, which caused a drop of 80% in such imports. In that context, imports from Chile and the rest of the world did not increase significantly. Those tariffs were lifted in 2021 and trade flows recovered. A more permanent tariff increase could lead to different dynamics.

Conclusions

The current geopolitical scenario is surrounded by high uncertainty. The preliminary analyses considered in this box suggest that Chile's trade exposure to the measures implemented or likely to be implemented in the short term is limited. Thus, the central scenario of this IPoM considers relatively limited negative effects on exports. However, the risks are relevant, and greater direct and indirect effects cannot be ruled out in the current scenario, or that new tariff measures may arise that have greater effects on Chile, nor that the financial and uncertainty channels may generate greater repercussions (Box I.1).

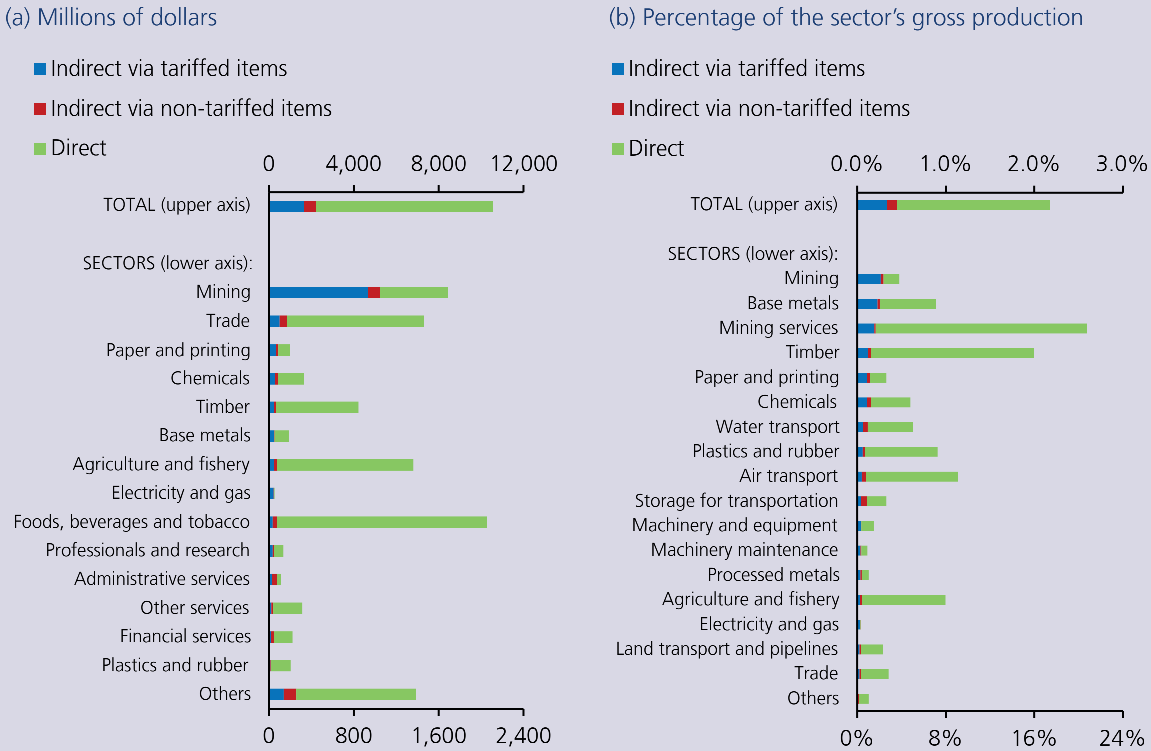
FIGURE I.24 AVERAGE UNITED STATES TARIFF (1)
(actual tariff on total imports; percent)



(1) Vertical lines from left to right: World War I, Smoot-Hawley Tariff Act, GATT, and WTO creation. (2) The sum of tariffs to date and the difference between the average tariff that U.S. trading partners impose on U.S. products and the one that the U.S. applies to them.
Source: Central Bank of Chile based on data from the United States International Trade Commission and the Tax Foundation.

[2]/ The timber industry accounts for 1% of local industrial production (equivalent to USD 4 billion), and the three countries affected export approximately USD 33 billion to the U.S. In the plastics industry, which accounts for 0.5% of local production (equivalent to USD 2 billion), the three countries export to the U.S. about USD 57 billion. As for industrial machinery, which also represents 0.5% of local industrial production (equivalent to USD 2 billion), the three countries affected export close to USD 220 billion. In the case of wine, which also accounts for around 0.5% of local industrial production, the countries concerned export around USD 5.2 billion to the U.S.

FIGURE I.25 DIRECT AND INDIRECT EXPORTS TO THE UNITED STATES (*)



(*) Chile's direct and indirect exports to the United States are reported by sector and in aggregate. The reported sectors correspond to the International Standard Industrial Classification, Fourth Revision. Direct exports (green bar) show export values in their traditional measurement. Indirect exports represent the value of Chilean participation in value chains affected by new tariff measures (blue bar) and in those not affected (red bar). The classification is independent of the tariff level and only considers whether the countries or sectors involved face tariffs when the product enters the United States. See Pustilnik and Wlasiuk (2025) for details.
Source: Central Bank of Chile based on the OECD's global input-output matrix.

BOX I.3:

Recent evolution of firms' margins and their relationship with inflation

During 2024, there was a simultaneous shock of various cost factors, such as the increase in labor costs, the adjustment of electricity tariffs and the exchange rate depreciation in the last quarter. These factors put downward pressure on firms' margins. This box shows the recent evolution of these margins and their relationship with the pass-through of cost shocks to prices and inflation.

Evolution of firms' margins

The June 2022 and March 2023 IPoM presented measures of firms' margins, defined as the ratio of selling prices to marginal production costs, calculated using microdata from administrative records. These measures reflected a decline in margins during the period in which increased domestic spending caused a significant rise in inflation, and pointed to significant future inflationary pressures.

This box updates these measures through December 2024.[1]/ Figure I.26 shows the recent evolution of margins for the wholesale and retail trade, manufacturing and rest of the economy sectors,[2]/ measured as deviations from their trend. It can be seen that, after the compression of 2021 and 2022, and in line with expectations, margins recovered during 2023, reaching a peak at the end of that year. Since 2024, they show a slow but steady decline in their levels. Although margins are far from the lows reached in 2022, they are currently tighter than they were at the beginning last year.

Relationship with inflation

In the face of prices stickiness, low margins due to cost increases are associated with future price increases once price rigidities ease. Thus, an exercise of local projections of margins against future aggregate inflation shows that the inflation is negatively associated with margin increases over the same period and for up to ten months (Figure I.27a).[3]/

Similar evidence is found using microdata from firms. Figure I.27b shows that firms with high margins pass on cost increases to prices to a lesser extent and at a slower rate of adjustment than those with low margins. This is consistent with the fact that firms with higher margins have more room to absorb these cost increases.

In line with this, recent evidence from firm surveys (Figure I.28) suggests that they partially accommodated increased cost pressures by adjusting their profit margins. In the coming months, however, they expect greater pass-through to their selling prices.

Conclusions

Margins were compressed during 2024, due to the simultaneous cost shock and the gradual recovery of domestic demand, which would reflect future inflationary pressures. These pressures are already included in the Bank's projection models.

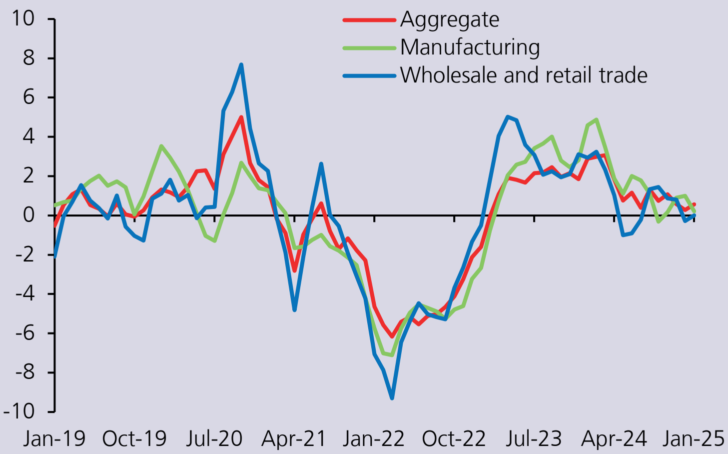
[1]/ See Andalaft et al. (2025).

[2]/ The aggregate measure of margins excludes mining (12% of GDP) and financial services (3% of GDP) sectors.

[3]/ For further details, see Andalaft et al. (2025).

Additional cost shocks or a faster recovery in demand pose risks for the accelerating inflation given the current situation of compressed margins and the greater pass-through to prices in that environment suggested by microeconomic evidence.

FIGURE I.26 FIRMS' AGGREGATE MARGINS (*)
(percentage deviation from its trend, quarterly moving average)

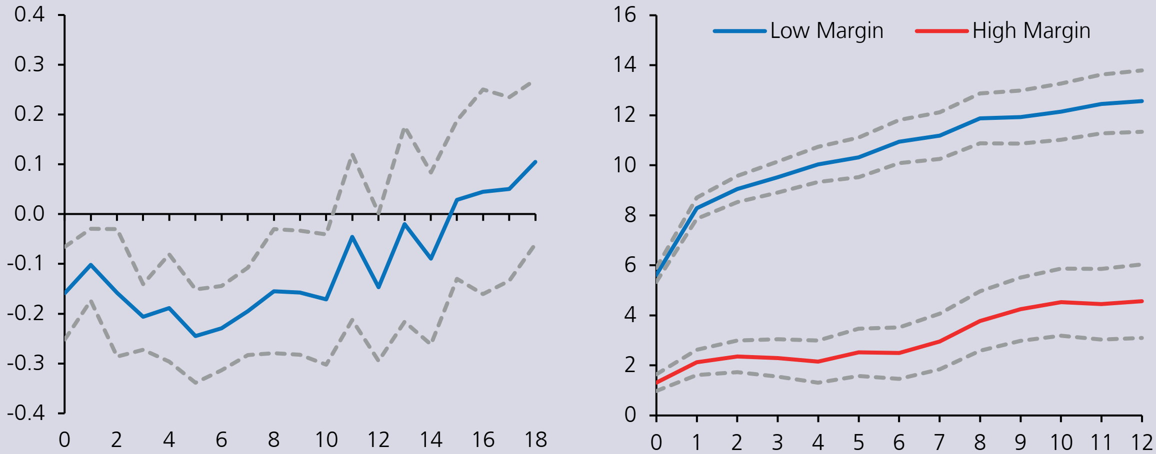


(*) Aggregate margins (weighted by employment) are shown as a percentage deviation from their Hodrick-Prescott trend, smoothed with a quarterly moving average.
Source: Central Bank of Chile.

FIGURE I.27 RELATIONSHIP BETWEEN MARGINS AND INFLATION

(a) Correlation between margins and core inflation (1)
(index)

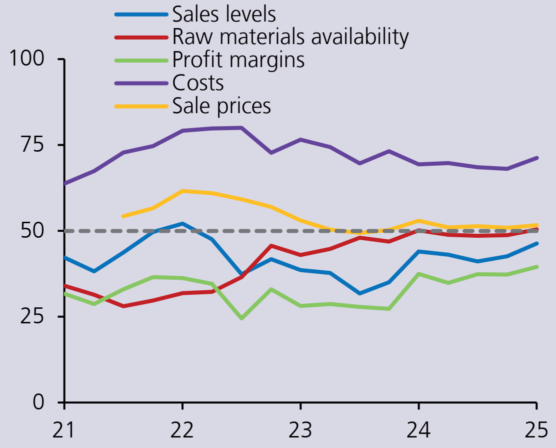
(b) Cost to prices pass-through according to margins (2)
(percent)



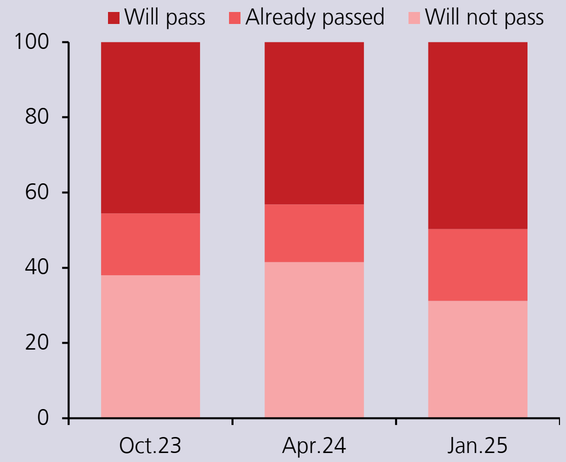
(1) Panel (a) shows the effect on inflation in the corresponding month of a one standard deviation increase in aggregate margins in period zero; the 95% confidence bands are shown in dotted lines. (2) Panel (b) shows the percentage change in firms' selling prices following a one percentage point increase in their marginal costs, for firms with high margins (above the industry median) and low margins. The confidence bands are built at the 95% level.
Source: Central Bank of Chile.

FIGURE I.28 EVOLUTION OF COSTS, MARGINS AND PASS-THROUGH TO PRICES IN SURVEYS

(a) Evolution of firm's factors in the last 3 months (diffusion index)



(b) Costs to prices pass-through (last and next 3 months)



Source: Business Perceptions Report.

II. FUTURE EVOLUTION OF MONETARY POLICY

Inflation has evolved in line with projections in the December Monetary Policy Report (IPoM). Although it has remained at high levels and with important risks regarding its future evolution. Activity has been more dynamic than expected, with export-related sectors standing out. On the external front, global uncertainty has increased due to the intensification of geopolitical conflicts, particularly in commercial matters. Its effect on global activity, inflation and financial conditions is still difficult to assess. Pending further information, the impact of the deterioration of the external situation on the Chilean economy is still assumed to be limited. In the short term, the better performance recently shown by local activity and demand will prevail, supported also by more favorable domestic spending fundamentals. Thus, the projected growth range for this year is adjusted upwards to 1.75%-2.75%, and for 2026 it remains between 1.5% and 2.5%. Inflation is still projected to converge to the 3% target by early 2026, once the base effects associated with the cost increases of previous years are left behind. In any case, significant risks surround its future evolution. The Board will assess the next movements of the Monetary Policy Rate (MPR) bearing in mind the evolution of the macroeconomic scenario and its implications for the inflationary convergence.

ACTIVITY AND DEMAND PROJECTIONS IN THE CENTRAL SCENARIO

Data for the end of 2024 and the turn of 2025 reveal a more dynamic than expected economy. In 2024, GDP grew above forecasts (2.6% versus 2.3% in the previous IPoM), while private consumption and investment followed a recovery path. The dynamism of sectors linked to exports of goods and services stood out, in part because of specific products, particularly cherries, in addition to the manufacturing industry and the positive effect of the greater number of foreign tourists boosting retail trade and some services. The gradual recovery of domestic demand took place in a context where some of its fundamentals showed improvements (Chapter I).

The greater dynamism since the end of 2024 provides a better starting point for activity in 2025 and is the main factor behind the moderate upward revision of this year's growth range forecast. In the central scenario of this IPoM, GDP is projected to grow between 1.75% and 2.75% (1.5% to 2.5% in December).

On the other hand, the external outlook has negatively affected the medium-term outlook for local activity. Despite the fact that in the immediate future, there have even been favorable movements in some variables, such as the terms of trade. The international situation has become more complex in recent months, due to the ongoing geopolitical conflicts effects on uncertainty and global activity, among other factors. The central scenario considers fairly limited direct and indirect effects of these developments on the Chilean economy, through the lower growth of trading partners and the increase in uncertainty associated with them (Box I.2). For now, external financial conditions facing Chile have become less restrictive than in a typical scenario of greater global uncertainty, to the extent that growth downgrades and greater risk aversion have been concentrated in the United States, where the fall in stock prices, the drop in long-term interest rates and the depreciation of the dollar contrast with what has been observed in the rest of the world (Box I.1). Accordingly, Chile's growth is projected to be between 1.5% and 2.5% during 2026 and 2027, which is close to our economy's trend growth.

The central scenario of this IPoM foresees slower growth for our trading partners in the period 2025-27, especially in 2026. The adjustment is mainly concentrated in the United States and some economies affected by their implementation of import tariffs. Activity in the United States is expected to moderate as (i) the greater effect of trade measures will be concentrated in this economy; (ii) the adverse effect of political and economic uncertainty on the business climate; and (iii) the reduction that some indicators of business and consumer expectations have shown. In this sense, market expectations have begun to see significant downward adjustments for 2025 and 2026.

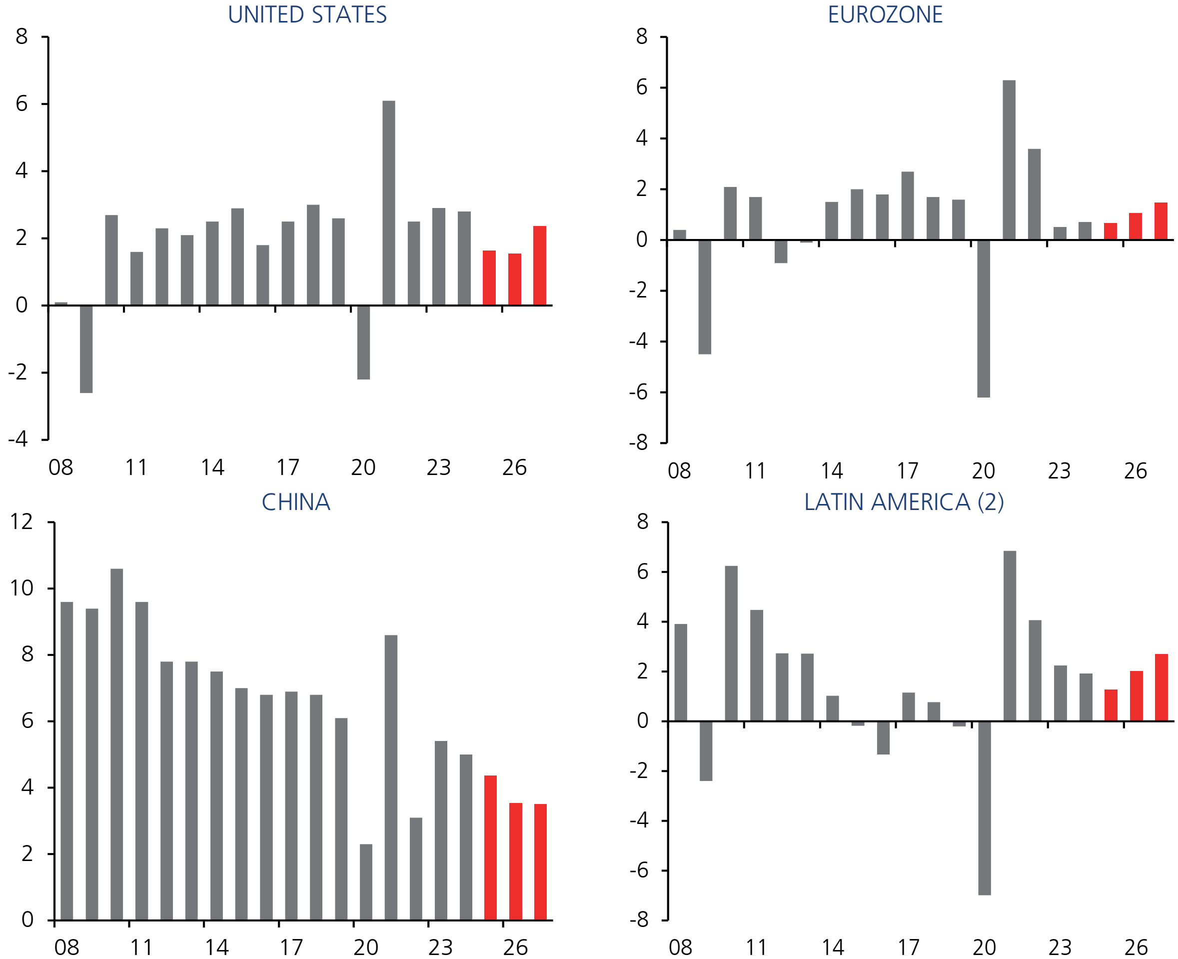
The dynamism shown by activity in China at the end of 2024 will help partially mitigate this situation, mainly in 2025. The economy has been driven by its export sector, favored by increased demand for its products in expectancy of the implementation of tariffs, as well as the stimulus measures decreed by its government. In any case, growth projections for the Chinese economy are unchanged for the next two years. The outlook for activity in the Eurozone and Latin America has weakened, although in the former region, market expectations have reacted favorably to Germany's announcements that it will increase spending on defense and infrastructure (Chapter I) (Table II.1; Figure II.1).

TABLE II.1 WORLD GROWTH (*)
(annual change, percent)

	Aveg. 10-19	2023	2024 (e)	2025 (f)	2026 (f)	2027 (f)
World GDP at PPP	3.6	3.5	3.3	2.7	2.7	3.1
World GDP at market exchange rate	3.3	3.0	2.8	2.2	2.2	2.7
Trading partners	3.9	3.5	3.3	2.7	2.5	2.8
United States	2.4	2.9	2.8	1.6	1.5	2.4
Eurozone	1.4	0.5	0.7	0.7	1.1	1.5
Japan	1.2	1.5	0.1	1.0	0.5	0.7
China	7.7	5.4	5.0	4.4	3.5	3.5
India	6.7	8.2	6.3	5.7	6.0	6.8
Rest de Asia	4.5	3.2	4.1	2.9	3.3	4.1
Latin America (excl. Chile)	1.7	2.2	1.9	1.3	2.0	2.7
Commodity exp.	2.2	1.4	1.0	1.3	1.5	2.1

(*) 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.

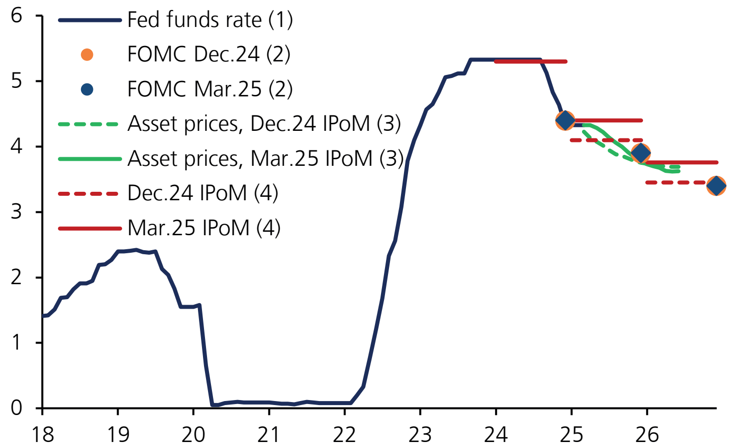
FIGURE II.1 TRADING PARTNERS GROWTH PROJECTIONS (1)
(annual change, percent)



(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.

The central scenario considers that the Federal Reserve (Fed)'s monetary policy will be more contractionary than forecast in December IPoM. This has occurred amid a slowdown in the process of inflationary convergence in the United States in recent months, with a still elevated services component, and doubts about the outlook for economic growth and the impact that recent measures will have on the inflationary trajectory. The Fed paused the rate-lowering cycle at its recents meeting and policymakers have signaled a more contractionary path, which would see fewer rate cuts in 2025 and an increase in the terminal rate level. The projections in this IPoM consider two 25 basis point (bp) cuts in 2025 (three in the last IPoM) (Figure II.2).

FIGURE II.2 EVOLUTION AND FORECASTS FOR THE FED FUNDS RATE
(percentage points)



(1) Actual Fed funds rate. Considers information up to March 2025. (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, 2025 and 2026, according to central scenario of each IPoM.
Sources: Bloomberg and U.S. Federal Reserve.

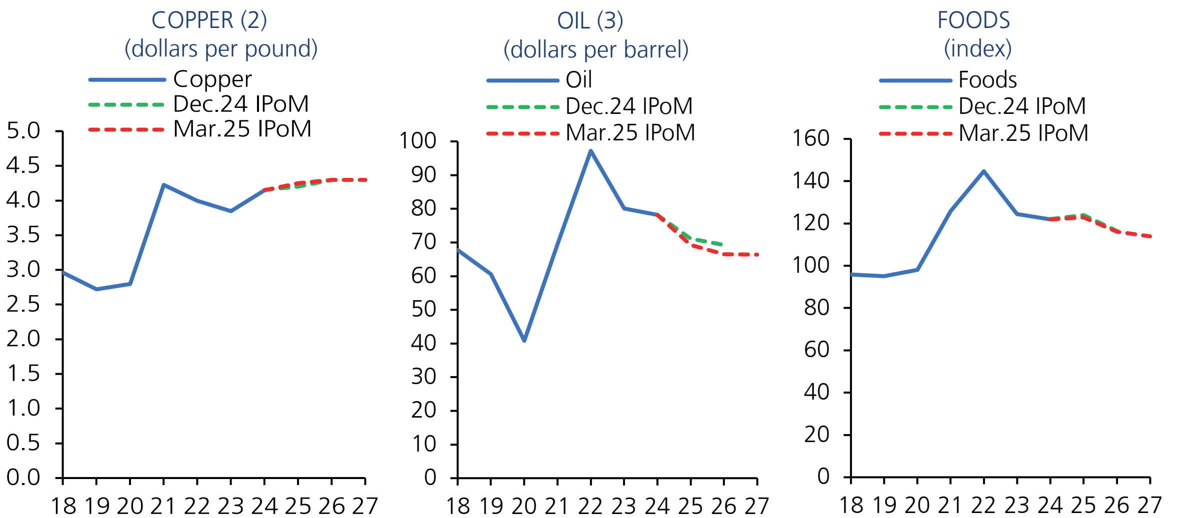
The projections for commodity prices are unchanged from the last ReportIPoM, with the exception of a downward revision to fuel prices. With this, the terms of trade remain are above those considered in December. The central scenario factors in a reduction in the projected oil price (Brent-WTI average), due to the lower outlook for demand. Thus, it is expected to decrease from US$69 to US$67 per barrel during 2025 and 2026 (around US$70 in the previous IPoM for both years). A similar situation is envisioned for gasoline. For copper and food (FAO) prices (FAO), the projections remain close to the December estimates. The average copper price (London Metal Exchange) continues to be foreseen to approach US$4.3 per pound over the projection horizon, although from higher levels than those prevailing at the close of the previous IPoM. Its value has also been influenced by Chinese demand and a significant increase in its price in the United States, affected by the threat of tariffs (Table II.2; Figure II.3).

TABLE II.2 INTERNATIONAL BASELINE SCENARIO ASSUMPTIONS

	Aveg. 10-19	2023	2024	2025 (f)	2026 (f)	2027 (f)
			(annual change, percent)			
Terms of trade	1.0	1.9	4.4	2.6	2.0	0.9
External prices (in US$)	0.6	-0.2	-0.7	-0.2	1.8	2.5
			(levels)			
LME copper price (US$cent/pound)	306	385	415	425	430	430
WTI oil price (US$/barrel)	72	78	76	67	64	64
Brent oil price (US$/barrel)	80	83	81	71	69	69
Gasoline parity price(US$/m3) (1)	610	721	660	565	527	532
US Federal Funds Rate (%) (2)	0.7	5.2	5.3	4.4	3.8	3.5

(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.

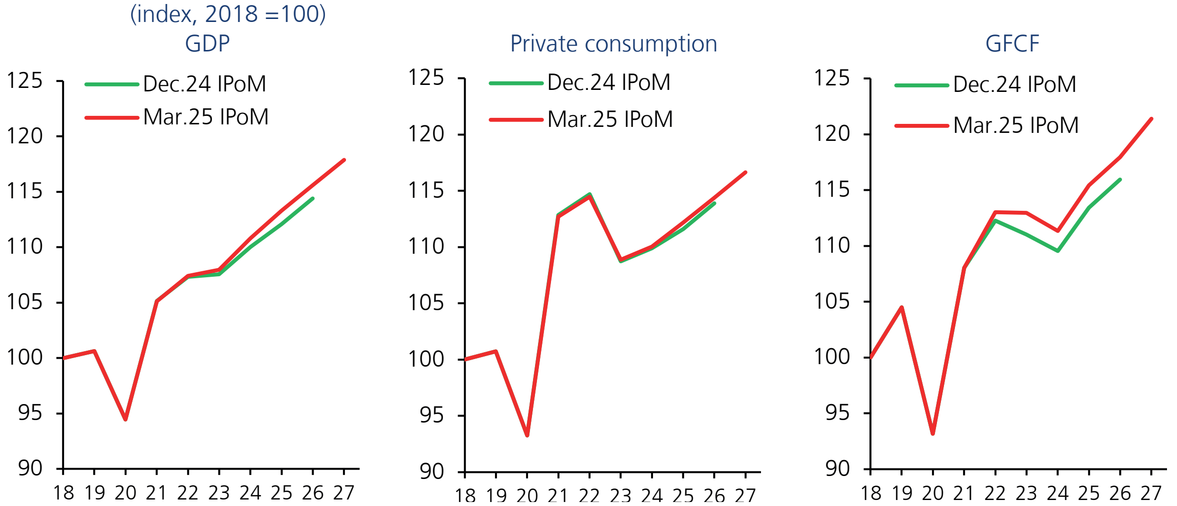
FIGURE II.3 COMMODITY PRICES FORECASTS (1)



(1) Actual or projected (slashed lines) average price for each year as contained in respective Monetary Policy Report (IPoM). (2) Copper price traded on the London Metal Exchange. (3) For oil, WTI-Brent average price per barrel.
Sources: Central Bank of Chile and FAO.

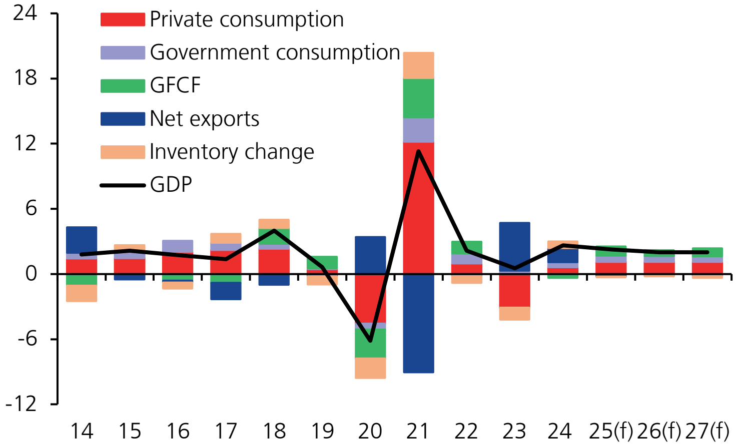
As for domestic demand, the central scenario envisages an annual expansion of private consumption in 2025 somewhat above what was forecast in the previous IPoM, while a similar growth pace is projected for 2026. This takes into account the gradual recovery path it has shown for some months and an improvement in some of its fundamentals more recently. Among the latter are the limited slack in the labor market —employment has increased at the margin according to different sources and real wages have continued to grow—, the rebound in consumer expectations and the real appreciation of the peso. At the margin, high-frequency indicators such as retail sales and imports of consumer goods have performed well, which would also be affected by the higher spending of non-residents (Chapter I) (Figures II.4 and II.5; Table II.3).

FIGURE II.4 ACTIVITY, PRIVATE CONSUMPTION AND GFCF (*)
(index, 2018 =100)



(*) Considers midpoint of GDP growth ranges projected in respective Monetary Policy Report (IPoM).
Source: Central Bank of Chile.

FIGURE II.5 GDP GROWTH AND AGGREGATE DEMAND COMPONENTS CONTRIBUTIONS (*)
(annual change, percentage points)



(*) For 2025, 2026 and 2027, considers midpoint of GDP growth ranges projected in this IPoM's central scenario. (f) Forecast.
Source: Central Bank of Chile.

TABLE II.3 ECONOMIC GROWTH AND CURRENT ACCOUNT

	2024	2025 (f)	2026 (f)	2027 (f)
		(annual change, percent)		
GDP	2.6	1.75-2.75	1.5-2.5	1.5-2.5
National income	2.3	3.6	2.3	2.3
Domestic demand	1.3	2.5	2.2	2.3
Domestic demand (w/o inventory change)	0.7	2.6	2.3	2.4
Gross fixed capital formation	-1.4	3.7	2.2	2.9
Total consumption	1.4	2.3	2.3	2.3
Private consumption	1.0	2.0	2.0	2.0
Goods and services exports	6.6	4.3	2.4	2.8
Goods and services imports	2.5	5.6	3.0	3.8
Current account (% of GDP)	-1.5	-1.9	-1.8	-2.0
Gross national saving (% of GDP)	21.7	21.5	21.7	21.8
Gross national investment (% of GDP)	23.2	23.4	23.6	23.8
GFCF (% of nominal GDP)	23.5	23.7	24.0	24.3
GFCF (% of real GDP)	23.2	23.5	23.5	23.7
		(US$ million)		
Current account	-5,009	-6,600	-6,900	-8,000
Trade balance	21,033	21,300	24,100	25,300
Exports	99,165	103,500	109,400	115,300
Imports	78,133	82,200	85,300	90,000
Services	-9,326	-10,300	-11,600	-12,700
Rent	-16,980	-17,800	-19,600	-20,800
Current transfers	264	200	200	200

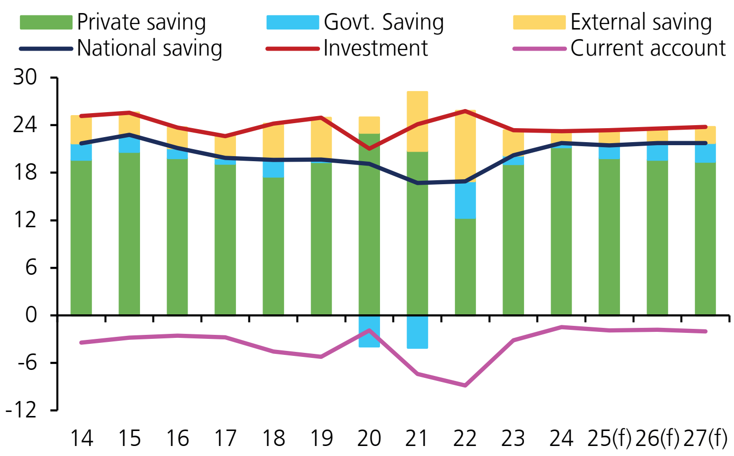
(f) Forecast.
Source: Central Bank of Chile.

The growth forecast for gross fixed capital formation (GFCF) remains largely unchanged. However, differences remain across components and sectors. The better outlook for GFCF this year compared to last year is justified by the latest National Accounts —which after updating and revising figures from previous quarters resulted in a higher level of this component—, the real appreciation of the peso and better business expectations. This is endorsed by antecedents such as imports of capital goods and the information from the Capital Goods Corporation survey for the fourth quarter last year. The latter reported an increase in investment in the mining and energy sectors. However, in the central scenario, investment related to non-mining items is still projected to exhibit comparatively lower rates of expansion (Chapter I) (Figures II.4 and II.5; Table II.3).

The outlook for fiscal expenditure is fairly unchanged from December. The central scenario assumes that fiscal spending in 2025 will increase as contemplated in the Budget Law, including the spending cut indicated in the Public Finances Report for the fourth quarter of 2024. For 2026 and 2027, it considers the committed expenditures indicated in the aforementioned Report.

The projection considers a smaller current-account deficit for 2025 and 2026, due to a more favorable outlook for the balance of payments. This is in line with the revisions of previous years' figures, which showed a lower deficit of income remittances abroad, which is extrapolated for the coming years. Going forward, exports of goods and services are expected to moderate due to the appreciation of the real exchange rate, the moderation of the effect of inbound tourism and the deterioration of the external scenario, especially shipments to the United States, while imports are expected to grow at a slower pace from 2026 onwards. From the standpoint of the savings-investment balance, a slight increase in national savings is forecast for the period 2025-27 compared to the forecast in the previous IPoM. This combines the higher level of private savings in 2024 and prospects for a more gradual decline, together with public sector savings that will increase over the projection horizon (Table II.3; Figure II.6).

FIGURE II.6 CURRENT ACCOUNT: SAVINGS AND INVESTMENT (*)
(percentage of annual GDP)

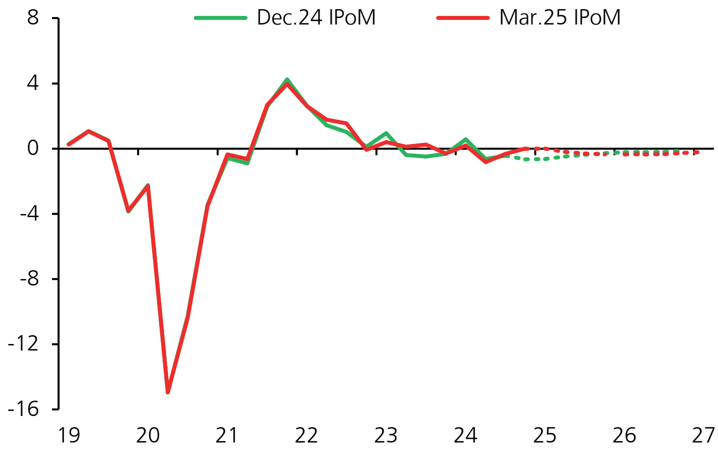


(*) The government savings component considers as actual data up to 2024 the general government's balance sheet; the government savings of the central government's balance sheet is used for the 2025-2027 forecast.
(f) Forecast.
Source: Central Bank of Chile.

THE ACTIVITY GAP AND INFLATION'S CONVERGENCE TO THE TARGET

The activity gap is expected to remain around equilibrium during the coming quarters (Figure II.7). This, after the latest National Accounts reported that growth figures for the fourth quarter of last year were above the forecasts of the previous IPoM. At the same time, non-mining GDP at factor cost was revised upwards from 2022, resulting in an increase in potential GDP. Going forward, the gap is projected to be around its equilibrium levels provided that the economy continues to grow at around its trend rates.

FIGURE II.7 ACTIVITY GAP (1) (2)
(level, percentage points)



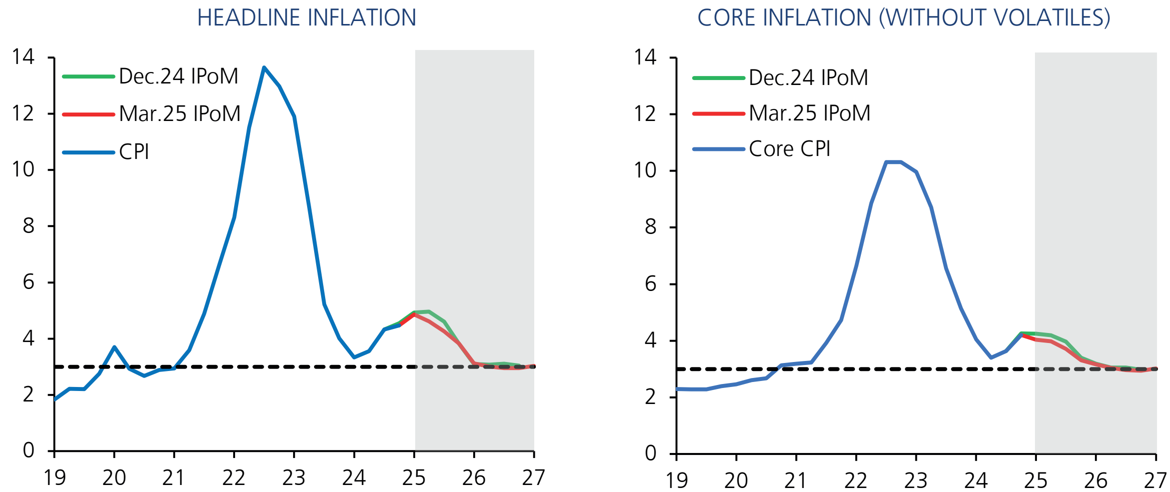
(1) Dotted lines show forecast. (2) Forecast assumes structural paramenters updated in September 2024 Monetary Policy Report (IPoM) (trend GDP) and March 2025 IPoM (potential GDP).
Source: Central Bank of Chile.

As in the last IPoM, inflation is expected to converge to the 3% target in early 2026. This projection considers the recent appreciation of the real exchange rate (RER), the reduced prospects for global fuel prices and the unwinding of the cost shocks that hit our economy in late 2024 and early 2025. The central scenario assumes that the RER will be around the levels prevailing at the statistical close of this Report (around 101) during the projection horizon. This couples with the effect that lower projected international fuel prices will have on the volatile component of the CPI. All the above is offset by outlook of higher services inflation and a somewhat higher demand.

Thus, it is expected that the annual variation of the CPI, after being close to 5% during the first quarter of this year, will average 4.6% in the second quarter. This figure will drop to 3.8% in December and will be around 3% in the first quarter of 2026. This dynamic is significantly influenced by the high comparison bases left by the process of electricity hikes that took place between the second half of last year and the beginning of 2025. In effect, the projected inflation rates are approaching levels compatible with 3% in the short term, so that when the effects of electricity tariffs wear off in the year- on-year comparison, a quick convergence of annual inflation is expected, which will begin to materialize in the second half of

2025 and the beginning of 2026. From then on, the annual CPI variation will oscillate around the 3% target. Inflation without volatility, after fluctuating around 4% during the first half of the year, will land around 3% at the beginning of 2026 (Figure II.8; Table II.4).

FIGURE II.8 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 first quarter 2025, shows forecast.
Sources: Central Bank of Chile and National Statistics Institute (INE).

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

	2024	2025 (f)	2026 (f)	2027 (f)
Average CPI	3.9	4.4	3.0	3.0
December CPI	4.5	3.8	3.0	3.0
CPI in around 2 years (2)				3.0
Average core CPI	3.8	3.8	3.0	3.0
December core CPI	4.3	3.3	3.0	3.0
Core CPI around 2 years (2)				3.0

(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 first quarter of 2027.
(f) Forecast.
Sources: Central Bank of Chile and National Statistics Institute (INE).

MONETARY POLICY STRATEGY: THE CENTRAL SCENARIO AND SENSITIVITIES

Although in general terms the macroeconomic scenario has evolved as expected, the overall background information at hand points to an inflationary outlook that continues to face significant risks, stressing the need for caution. This considers the simultaneous rise in different cost pressures of recent months, in a scenario where various margin measures point to a reduction during 2024 (Box I.3). In any case, some factors have eased lately, such as the aforementioned appreciation of the peso and the drop in external fuel prices. Against this backdrop, some indicators of two-year inflation expectations remain above 3%.

Meanwhile, the risk configuration facing domestic activity and spending has been changing. Scenarios with a less favorable evolution of some internal forces and their negative effects on the local economy have become less likely. Overall, the Board will remain alert to the possibility of more disruptive events at the international level and their economic and financial impacts.

The Board will assess the next movements of the MPR bearing in mind the evolution of the macroeconomic scenario and its implications for the inflationary convergence. Furthermore, the Board reaffirms its commitment of conducting monetary policy with flexibility, so that projected inflation stands at 3% over the two-year horizon.

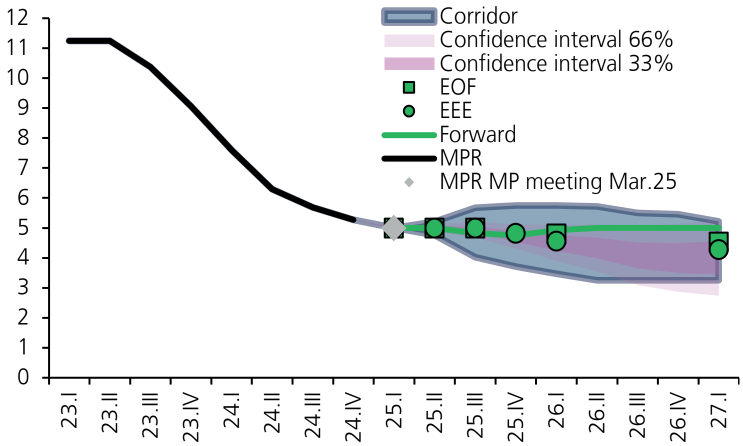
The MPR corridor contains sensitivity scenarios that differ from the central one and with a significant probability of occurrence-, in which monetary policy could follow a different path (figures II.9 and II.10).

The sensitivity scenario at the upper bound of the MPR corridor represents inflation remaining high for longer. This could be the case in the event that inflationary persistence exceeds its historical patterns and domestic demand grows more than expected. This would result in a greater pass-through of costs to prices, considering also the aforementioned compression of business margins.

On the lower bound, a scenario could materialize in which the negative impact of tariff measures and greater global uncertainty would be accentuated. A deepening of the trade conflict and a greater impact through financial channels cannot be ruled out. This could dampen expectations and spending by firms and households, significantly reducing inflationary pressures, which would require implementing faster cuts to the MPR.

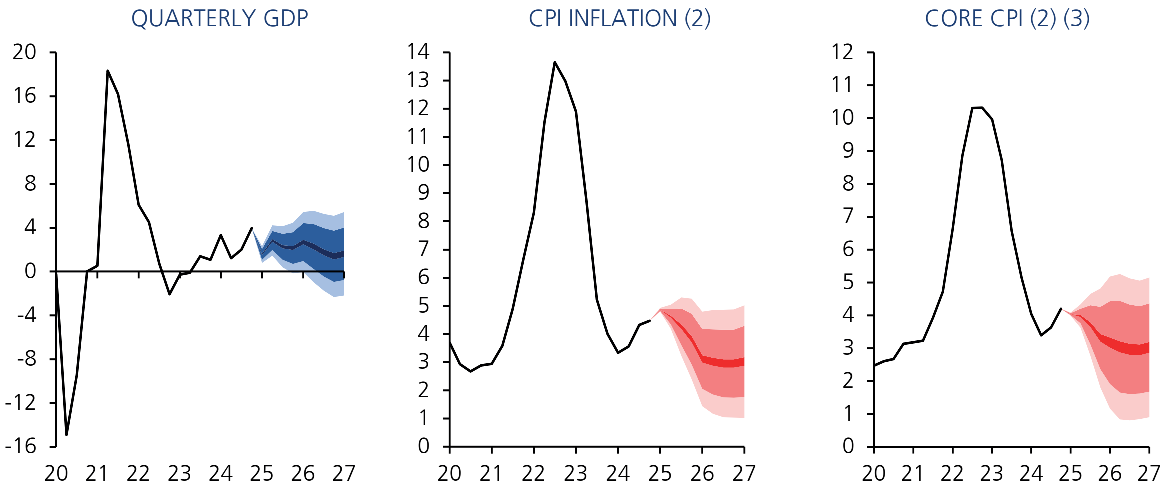
Pending further information, the central scenario of this IPoM considers that the impacts of changes in the international scenario on the Chilean economy are still contained. However, there are risk scenarios in which these effects could be considerably greater. A major change with respect to previous situations is that events with significantly detrimental consequences in the world economy and in Chile have increased their probability of occurrence. The effects would be particularly harmful if a scenario of greater trade tensions were combined with more significant disruptions in the framework of the political alliances that have characterized developed countries since World War II, raising the probability of military conflicts. The more severe financial repercussions of episodes like these are added. In such situations, monetary policy would have to make substantial adjustments to support the convergence of inflation to the target.

FIGURE II.9 MPR CORRIDOR (*)
(quarterly average, percent)



(*) The 2025, 2026 and 2027 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 March Economic expectations survey (EEE), the March pre-MP meeting Financial traders survey (EOF) and the quarterly average smoothed forward curve as of March 18. 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 March 2025. Source: Central Bank of Chile.

FIGURE II.10 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:

Changes in forecasts during 2024

Macroeconomic forecasts play a central role in the inflation targeting framework of the Central Bank of Chile. This Box examines their evolution during 2024, highlighting the main changes, their rationale and implications for the conduct of monetary policy.

Evolution of the external scenario

Chile's trading partners' projected growth for 2024 was increased significantly during the 2023-2024 period: from 2.3% in the September 2023 IPoM to 3.2% in December 2024 (Table II.5). A relevant role in this was played by the expected performance of the United States, which was corrected from –0.2% to 2.8% between the same dates. The above, together with higher inflation in the US economy, postponed the expected cuts in the federal funds rate to the second half of 2024. The terms of trade were also revised upwards during the last year, due to a higher copper price. This, in a context of supply shortage and high demand driven by the energy transition and other factors (Box I.2, June 2024 IPoM).

TABLE II.5 EXTERNAL CENTRAL SCENARIO PROJECTIONS FOR 2024 (*)

	Sep.23	Dec.23	Mar.24	Jun.24	Sep.24	Dec.24	Effective data
				(annual change, percent)			
Trading partners GDP	2.3	2.7	3.0	3.1	3.0	3.2	3.3
World GDP at PPP	2.2	2.6	3.0	3.2	3.2	3.3	3.3
Terms of trade	-2.9	-1.5	-3.2	1.4	0.5	0.9	4.4
External prices (in US$)	3.7	0.8	1.5	0.1	-0.9	0.0	-0.7
				(levels)			
LME copper price (US$cent/pound)	370	380	385	430	415	415	415
WTI oil price (US$/barrel)	76	73	79	78	78	76	76
Brent oil price (US$/barrel)	80	77	84	83	84	81	81
US Federal Funds Rate (%)	4.9	5.1	5.3	5.5	5.4	5.3	5.3

(*) Projections included in the respective IPoM. Last column corresponds to actual data, except for Trading partners GDP and World GDP at PPP, which corresponds to preliminary data.
Source: Central Bank of Chile.

Changes in domestic activity and demand forecasts

Following an upward revision in the March 2024 IPoM, local activity projections were not changed significantly over the last year (Table II.6). This revision, when the GDP growth range for 2024 was raised from 1.25%-2.25% to 2.0%-3.0%, was motivated by the strong activity in the first quarter of last year. The projection had adjustments within these ranges for the rest of the year, with actual growth of 2.6%. This figure was within expectations since the beginning of the year, although above the December forecast, influenced to the dynamism of the export sector in the fourth quarter.

TABLE II.6 ACTIVITY, DEMAND AND CURRENT ACCOUNT FORECASTS FOR 2024 (*)

	Sep.23	Dec.23	Mar.24	Jun.24	Sep.24	Dec.24	Effective data
				(annual change, percent)			
GDP	1.25-2.25	1.25-2.25	2.0-3.0	2.25-3.0	2.25-2.75	2.3	2.6
Domestic demand	1.5	2.0	1.6	1.8	1.3	1.1	1.3
Domestic demand (w/o inventory change)	1.1	1.5	1.0	2.0	1.3	0.9	0.7
Gross fixed capital formation	-0.6	0.0	-2.0	-0.3	-0.8	-1.3	-1.4
Total consumption	1.6	2.0	2.0	2.8	2.0	1.5	1.4
Private consumption	1.7	2.1	2.0	2.5	1.7	1.1	1.0
Goods and services exports	4.0	3.4	4.5	5.9	6.1	5.6	6.6
Goods and services imports	3.1	4.3	1.3	3.2	2.9	1.7	2.5
				(% of GDP)			
Current account	-4.0	-4.0	-3.4	-2.1	-2.1	-2.4	-1.5

(*) See note to table II.5. From March 2024, Inflation figures consider 2023 CPI basket using Central Bank of Chile splicing.
Source: Central Bank of Chile.

Projected demand saw greater adjustments than activity during 2024. Until June, a view of greater dynamism in domestic demand was incorporated, due to the increased prospects for copper prices and mining investment (Box I.1 in September 2024 IPoM), as well as higher expected consumption in view of the growth of the wage bill and improvements in other fundamentals. Since September, consumption and gross fixed capital formation were revised downwards, due to poor household spending (Box I.2 in December 2024 IPoM) and non-mining investment in the second and third quarters. This was offset by higher exports. The strength of the external sector and the weakness of domestic spending were also reflected in the reduction in the projected current account deficit. In any case, the outlook for a gradual recovery of domestic demand was maintained, which has been validated by recent data.

Cambios en las proyecciones de inflación e implicancias de política monetaria

The process of reducing local post-pandemic inflation was completed by the beginning of 2024. Thereafter, new shocks occurred that increased cost pressures. These included the depreciation of the peso, higher oil prices and increases in maritime shipment costs, which, together with upward surprises in inflation in January and February, led to higher inflation projections for 2024 in the March IPoM (Table II.7). In June, the cost shock associated with the unfreezing of electricity prices following the publication of the corresponding law in April was incorporated, whose cumulative impact on the expected CPI one year ahead was estimated at 145 basis points (bp), mostly due to the direct effect on the electricity CPI. This compared with 40bp expected in March, when the law passed in 2022 defining other mechanisms for adjusting the households' electric bill was in force (Box II.1 June 2024 IPoM). During the second half of 2024, there were the added impacts of higher labor costs and a new depreciation of the exchange rate in the last quarter.

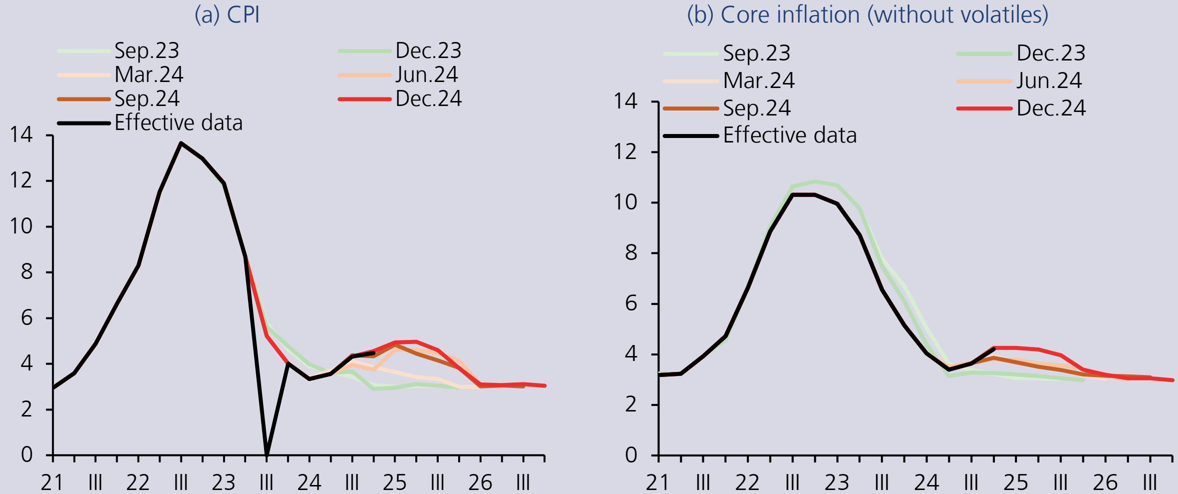
The simultaneity of cost shocks contributed to the narrowing of the firms' margins, leading to a re-evaluation of the estimated exchange rate pass-through to historically average prices. All the above resulted in a string of upward revisions of headline and core inflation in the central scenario. In any case, the outlook for inflation to converge to 3% at the beginning of 2026 was maintained, given the transitory nature of several of the previous cost factors and the closing of the activity gap (Figure II.11).

TABLE II.7 INFLATION FORECASTS FOR 2024 (*)

	Sep.23	Dec.23	Mar.24	Jun.24	Sep.24	Dec.24	Effective data
				(percent)			
Average CPI	3.5	3.5	3.8	3.7	3.9	3.9	3.9
December CPI	3.0	2.9	3.8	4.2	4.5	4.8	4.5
Average core CPI (without volatiles)	3.8	3.5	3.8	3.8	3.7	3.8	3.8
December core CPI (without volatiles)	3.1	3.2	3.8	3.8	3.9	4.5	4.3

(*) See note to table II.5.
Sources: Central Bank of Chile and National Statistics Institute (INE).

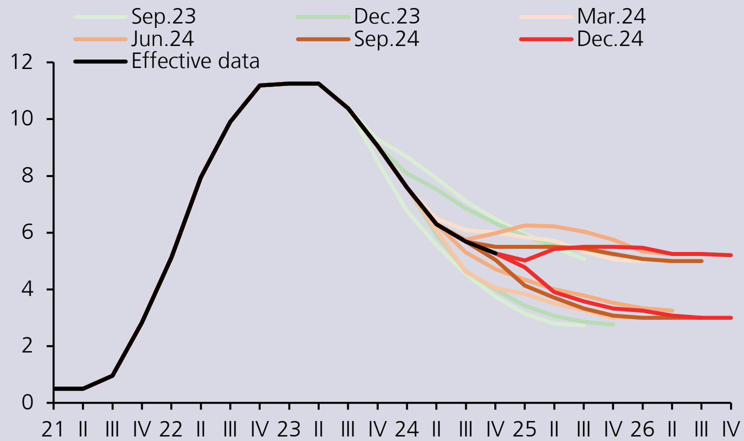
FIGURE II.11 INFLATION FORECASTS (*)
(annual change, percent)



(*) Since March 2024 IPoM, inflation figures consider 2023 CPI basket using the Central Bank of Chile's (BCCh) splicing. Until the December 2023 IPoM, splices consistent with the previous basket (2018) were used.
Sources: Central Bank of Chile and National Statistics Institute (INE).

Because the early 2024 projections did not differ significantly from the actual data for 2024 activity, and because the main components of domestic demand adjusted gradually downward during successive IPoMs, it follows that the higher inflation was mainly associated with the effect of electricity prices and, to a lesser extent, with the exchange rate depreciation. The fact that the real monetary impulse forecast for that period did not vary substantially between policy meetings reflects one of the main advantages of the inflation targeting framework. That is, the MPR strategy can accommodate cost shocks, as long as they are one-off and do not jeopardize the convergence of inflation over the policy horizon. This monetary policy stance has been reflected in the evolution of the MPR corridors and the actual rate, which have not differed much since mid-2023 (Figure II.12).

FIGURE II.12 EVOLUTION OF THE MPR CORRIDOR DEL CORREDOR PARA LA TPM
(quarterly average, percent)



Source: Central Bank of Chile.

Concluding remarks

Macroeconomic projections are of great importance for the conduct of monetary policy, given their forward-looking approach. During 2024, the IPoM highlighted successive upward revisions in inflation due to various cost factors —including the depreciation of the peso, the unfreezing of electricity prices and higher labor costs— which affected the total and core CPI, despite lower domestic demand pressures. The incorporation of this background data allowed adjusting the actual and expected MPR trajectory, so that all the 2024 IPoMs maintained the projection of inflation converging to the 3% target at the beginning of 2026.

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