MONETARY POLICY REPORT

JUNE 2025

50 Thousand Pesos, Central Bank of Chile, 1959

The $50,000 banknote is the highest denomination in our monetary history. Its issuance was authorized on January 10, 1958, by Decree 101 of the Ministry of Finance. The obverse features the figure of President Arturo Alessandri Palma, and the reverse features one of the important achievements of his administration: the creation of the Central Bank of Chile. In 1959, under the administration of Jorge Alessandri Rodríguez, the currency was changed from peso to escudo, with 1,000 pesos being equivalent to 1 escudo. For this reason, the reverse of the banknote, next to the image of the Central Bank building, reads 50 escudos.

You can learn more about the Central Bank's collection of banknotes and coins at www.museobancocentral.cl, or visit the Numismatic Museum, open Monday to Friday from 10:00 a.m. to 1:00 p.m., at Agustinas 1180, Santiago.

Monetary Policy Report

June 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.

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*/ For the central scenario construction purposes, the statistical cut-off date is 11 June. This document was originally written in Spanish. In case of discrepancy or difference in interpretation, the Spanish version prevails.

SUMMARY

The external macroeconomic scenario has become considerably more uncertain. Part of this is due to the changing announcements about U.S. trade policy and its implications. Although the impacts of this situation on global activity are not yet evident, expectations are that they will be negative. Its magnitude is expected to be greater in the United States than in the emerging world, since, in contrast to other episodes of uncertainty, financial conditions have responded favorably. More recently, an escalation of military conflicts in the Middle East has added, which scope, development and possible impacts on the global and Chilean economies are unknown. At the local level, activity was more dynamic than anticipated in the first quarter, supported by some temporary elements. Inflation has evolved in line with expectations and the upward risks that had been highlighted in the first part of the year have moderated. The central projection scenario shows no major changes. GDP is still estimated to evolve around its trend in the coming quarters, while inflation is foreseen to converge to 3% during the first half of 2026. Over the medium term, the escalating trade conflict will continue to affect the economic outlook. Furthermore, recent events in the Middle East introduce a new source of uncertainty, which could develop into more complex scenarios. However, if the central scenario of this IPoM materializes, in the following quarters the Monetary Policy Rate (MPR) will be approaching its range of neutral values. The Board will assess the future movements of the MPR considering the evolution of macroeconomic conditions and their implications for the convergence of inflation.

The widespread increase in tariffs announced by the United States government at the beginning of April has had significant repercussions on the external scenario. As noted in the first half of the year's Financial Stability Report, this has led to a marked increase in global economic uncertainty, in a context where other risk factors, such as geopolitical conflicts and the high fiscal debt of some countries, are still present.

The escalation of the military conflict in the Middle East adds further uncertainty to this scenario. This event began to be observed more strongly after the statistical cutoff date for this Report —June 11— so its effects are not considered in the central projection scenario.

Regarding the impact of trade tensions, their effect on global activity is estimated to be negative. However, the changing development of the process —including announcements, retaliation from other countries, and postponements— has made it difficult to assess their short-, medium-, and long-term repercussions.

The reaction of global financial markets has not been the usual one seen in events of high uncertainty, and an increase in the risk of U.S. assets has been observed. This may reflect heightened concerns about the U.S. fiscal and institutional situation, which has diminished the attractiveness of all types of financial assets in that economy (Box I.1). At the same time, there is consensus that the main effects of tariff adjustments will fall on both activity and inflation in the United States. In this scenario, according to information available up to the statistical cutoff, the Federal Reserve adopted a more cautious stance regarding the federal funds rate.

The greater relative risk of U.S. assets has led to a more benign evolution of financial conditions in the emerging world —including Chile— than would be expected in the face of a shock of this magnitude. Thus, long-term interest rate differentials with respect to the United States have narrowed in various economies, currencies have strengthened against the dollar, and stock markets have risen.

Domestically, as in other emerging economies, the impacts of the trade conflict on activity have not been significant so far. High-frequency information does not show substantial changes from the previous trends of its foreign trade, maintaining the dynamism of exports and imports of goods. Moreover, the confidence indexes do not show that the external situation is affecting them.

The inflation scenario has evolved as expected, with core inflation (excluding volatile items) running lower than anticipated. In May, total and core CPI annual change was 4.4% and 3.6%, respectively (4.7% and 3.9% in February). The smaller increment of the core component was driven, in particular, by the prices of some foods and services.

Upward risks for inflation, which had been highlighted in the first part of the year, have moderated. On the one hand, two-year inflation expectations have been realigning with the 3% target while, on the other hand, cost shocks from previous quarters are not seen to be causing larger-than-expected second-round effects.

In the first quarter, domestic activity was more dynamic than expected, explained again by the performance of exporting sectors. During this period, non-mining GDP grew 1.2% quarter-on-quarter in its seasonally adjusted series (0.7% in the previous quarter). The contribution of fruits, manufacturing, and fishery production stood out, along with a better performance in several service and retail and wholesale trade sectors, supported by the greater number of foreign tourists. The latest Imacec showed a certain reversal of supply factors, while services remained dynamic.

Domestic demand has continued to grow, as projected. Private consumption expanded again in the first quarter, particularly for goods. This occurred in a context of mixed evolution of the main fundamentals of spending. On the one hand, the debt and financial burden levels continue to decrease, while wages continue to show high rates of expansion, associated with recent legislative changes. The Business Perceptions Report (IPN) and Survey of Expectations and Price Determinants (EDEP) suggest some degree of concern among firms about the future trajectory of wages. On the other hand, labor costs are rising in tandem with sluggish job creation and an increase in the unemployment rate.

Gross fixed capital formation (GFCF) performed poorly in the first quarter, with significant differences between sectors remaining. GFCF posted zero quarterly variation at the beginning of 2025, in both machinery and equipment and construction and works components. By sectors, the dynamism of mining investment continues to contrast with the weak figures of other activities.

Still, leading indicators point to a stronger boost from investment going forward. High-frequency data suggest that GFCF has shown a more favorable performance lately, especially for imports of capital goods. The latest survey of the Capital Goods Corporation (CBC) showed a significant increase in planned investments for 2025 and the next years, particularly in mining and energy, with additional initiatives in the formalities stage (Box I.2).

Projections

The central projection scenario resembles the forecasts of the past six months. Compared to the December and March reports, there is somewhat more dynamic activity in the short term and, regarding inflation, there is a moderation of upward risks and a similar time frame for its convergence to the target.

Globally, however, risks have increased significantly. The tariff hike announced by the United States is an unprecedented event of considerable magnitude. So far, the reaction of the financial markets has been benign and no significant real effects have been observed. However, scenarios of worsening external conditions and negative impacts on the global economy beyond projections cannot be ruled out. The possible impact of military tensions in the Middle East, not included in these projections, is added.

In the central scenario, the outlook for the international economy contains few adjustments. Compared to March, trading partners' growth is lowered by one tenth of a point on average for the period 2025-2027 (2.6%), but by more for the United States. This limited correction responds to two main factors. On the one hand, a significant part of the effects of the trade conflict had already been covered in March, when a substantial cut in projected growth for the United States was made. On the other hand, the markets' responses have mitigated the impact of the financial channel. Regarding commodity prices, the copper price projection remains unchanged —averaging US$4.3 between 2025 and 2027— while the oil price projection is slightly lower. The latter, as noted, does not consider developments after statistical cutoff.

The central scenario assumes that the impact of trade tensions on the Chilean economy will be limited. To date, it is known that a fraction of domestic shipments to the United States are subject to a 10% tariff. Trade with the rest of the world has not been affected and a potential shift of exports to other destinations would probably have a minor impact on activity (Box II.1). Likewise, the more positive evolution of financial variables such as interest rates or the stock market and the limited deterioration of local agents' expectations would anticipate limited effects on investment (Box II.3). In any case, if the conflict in the Middle East escalates further, it could lead to increased global uncertainty that could affect the global and local economies.

As for inflation, trade diversions would reduce the prices of some of the products imported by Chile. This would be mainly concentrated in durable goods, with a negative impact on the annual change of the CPI that is assumed to be of the order of 0.3 percentage points accumulating throughout the projection horizon (Box II.2).

Thus, the bigger share of adjustments made to forecasts in this IPoM originates domestically. The GDP growth range for 2025 is revised to 2.0%-2.75% (1.75%-2.75% in March), thanks to the better performance early this year. This leaves a higher starting point for activity —and a less negative output gap in the near term— which is expected to converge to a pace of expansion consistent with its trend as the transitory elements that contributed to the higher growth in early 2025 gradually fade away.

For 2026 and 2027, the range for GDP growth is maintained at 1.5%–2.5%. This factors in the effects of the deterioration of external conditions and the effects of more promising prospects for GFCF.

The greater dynamism anticipated for investment will be focused mainly on large-scale mining and energy projects, whose budgeted amounts are reviewed with special emphasis starting in the second half of 2025. Thus, the GFCF growth estimate is maintained at 3.7% for 2025, and raised for 2026 and 2027 to 3.6% and 3.3%, respectively (2.2% and 2.9% in March).

Private consumption will continue to expand around 2% over the projection horizon. The dynamism of real labor income and the fall in the financial burden of households, among other elements, will support this part of spending.

For 2025, the central scenario assumes the fiscal spending growth estimated in the Public Finances Report (IFP). From then onwards, it considers the expenses committed as detailed in said Report.

With respect to March estimates, the inflation trajectory is not significantly changed throughout the projection horizon and is expected to achieve the 3% annual target in the first half of 2026. This is the result of several factors: One is the somewhat more dynamic domestic demand, coupled with a relatively more depreciated real exchange rate over the projection horizon; another is the lower inflation resulting from trade diversions and the lower outlook for fuel prices. In this scenario, core inflation will stand around 3% during the latter part of 2025.

Monetary policy

In recent months, inflation has evolved in line with projections and the upward risks that had appeared early in the year have moderated. Activity has exceeded projections; however, recent events in the Middle East have introduced a new source of uncertainty, which could develop into more complex scenarios.

If the central scenario of this IPoM materializes, in the following quarters the MPR will be approaching its range of neutral values. The Board will assess the future movements of the MPR considering the evolution of macroeconomic conditions and their implications for the convergence of inflation. It also reaffirms its commitment to conduct monetary policy with flexibility, so that projected inflation stands at 3% over the two-year horizon.

Regarding the sensitivity scenarios of the MPR corridor, the upper bound represents a situation in which domestic demand is strengthened above expectations. This may come from a context in which business and household confidence improves, due to a decrease in global tensions, higher local growth prospects, or investments whose effects on the labor market and earnings are greater than anticipated.

The lower bound corresponds to a scenario in which the external scenario deteriorates, negatively affecting the global and local economies. This could be the case if trade tensions flare up and/or global uncertainty soars. This could lead financial markets to behave in a manner similar to previous episodes of risk aversion, including a depreciation of the peso. In addition to the financial repercussions and the fall in global demand, there would be the added impact of greater pessimism among agents, with downward effects on domestic demand.

International developments also define other sensitivity scenarios within the MPR corridor. The supply shock associated with the new tariffs and the impacts of trade diversions on the local economy could be different from the central scenario, in particular the reaction of the prices of products imported by Chile.

As aforesaid, the risks surrounding the global scenario are high in the current context, with potentially significant deviations. The complexity of the external geopolitical scenario —a mixture of political, economic, and military conflicts— does not allow to rule out more disruptive episodes. In fact, what happened in the Middle East at the close of this IPoM is an example of the relevance of factors that in the past were considered less likely. At the moment, its scope, development and potential impacts on the global and local economies are unknown, hence the need to monitor it closely. The Chilean economy is not immune to international events. However, it has the capacity to mitigate the impact of new shocks, including a monetary policy that has room for action should more substantial adjustments be necessary for inflation to converge to the target.

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

	2023	2024	2025 (f)		2026 (f)		2027 (f)	
			Mar.25 IPoM	Jun.25 IPoM	Mar.25 IPoM	Jun.25 IPoM	Mar.25 IPoM	Jun.25 IPoM
Average CPI	7.3	3.9	4.4	4.3	3.0	3.1	3.0	3.0
December CPI	3.4	4.5	3.8	3.7	3.0	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	3.5	3.0	3.1	3.0	3.0
December core CPI	4.7	4.3	3.3	3.1	3.0	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 March 2025 IPoM corresponds to inflation forecast for the first quarter of 2027, for June 2025 IPoM to inflation forecast for the second 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)	
			Mar.25 IPoM	Jun.25 IPoM	Mar.25 IPoM	Jun.25 IPoM	Mar.25 IPoM	Jun.25 IPoM
					(annual change, percent)			
Terms of trade	1.9	4.4	2.6	2.9	2.0	2.1	0.9	1.1
Trading partners	3.5	3.3	2.7	2.6	2.5	2.4	2.8	2.7
World GDP at PPP	3.7	3.4	2.7	2.6	2.7	2.6	3.1	3.1
Developed GDP at PPP	1.6	1.6	1.2	1.1	1.3	1.1	1.9	1.8
Emerging GDP at PPP	4.9	4.4	3.6	3.5	3.6	3.4	3.9	3.8
					(levels)			
LME copper price (US$cent/pound)	385	415	425	430	430	430	430	430
Oil price, average WTI-Brent (US$/barrel)	80	78	69	66	67	63	66	64

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

TABLE 3: INTERNAL SCENARIO
(annual change, percent)

	2023	2024	2025 (f)		2026 (f)		2027 (f)	
			Mar.25 IPoM	Jun.25 IPoM	Mar.25 IPoM	Jun.25 IPoM	Mar.25 IPoM	Jun.25 IPoM
GDP	0.5	2.6	1.75 - 2.75	2.0 - 2.75	1.5 - 2.5	1.5 - 2.5	1.5 - 2.5	1.5 - 2.5
Domestic demand	-3.7	1.3	2.5	3.2	2.2	2.7	2.3	2.4
Domestic demand (w/o inventory)	-2.7	0.7	2.6	2.9	2.3	2.5	2.4	2.5
Gross fixed capital form	-0.1	-1.4	3.7	3.7	2.2	3.6	2.9	3.3
Total consumption	-3.5	1.4	2.3	2.6	2.3	2.1	2.3	2.3
Private consumption	-4.9	1.0	2.0	2.2	2.0	2.0	2.0	2.0
Goods and services exports	0.1	6.6	4.3	5.1	2.4	1.8	2.8	2.7
Goods and services imports	-10.9	2.5	5.6	7.6	3.0	4.0	3.8	4.3
Current account (% of GDP)	-3.2	-1.5	-1.9	-1.8	-1.8	-1.8	-2.0	-2.0
Gross national saving (% of GDP)	20.2	21.8	21.5	22.2	21.7	22.7	21.8	22.7
Gross fixed capital formation (% of nominal GDP)	24.2	23.5	23.7	23.8	24.0	24.2	24.3	24.5

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

I. RECENT EVOLUTION OF THE MACROECONOMIC SCENARIO

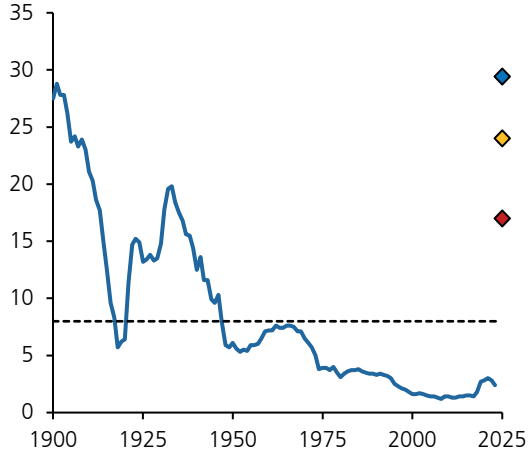
Macroeconomic news in recent months has been dominated by the generalized increase in tariffs announced by the United States government at the beginning of April, which has significantly increased global uncertainty and reduced growth prospects, especially for that country. Emerging financial markets, including Chile's, have reacted more favorably than in other episodes of tension. On the local macroeconomic front, the inflation outlook has evolved in line with what was foreseen, with a lower-than-expected trajectory of core inflation. Moreover, upside risks to inflation, which had risen in the first part of the year, have moderated. Activity was more dynamic than expected, underpinned by elements associated with the export sectors—which have been dissipating more recently—and the performance of services. In domestic demand, private consumption accelerated in the first months of the year, in contrast to gross fixed capital formation (GFCF). In any case, the latter is expected to regain strength—especially through the boost from large mining and energy projects—as suggested by the investment surveys, high-frequency data and other spending fundamentals.

THE INTERNATIONAL SCENARIO

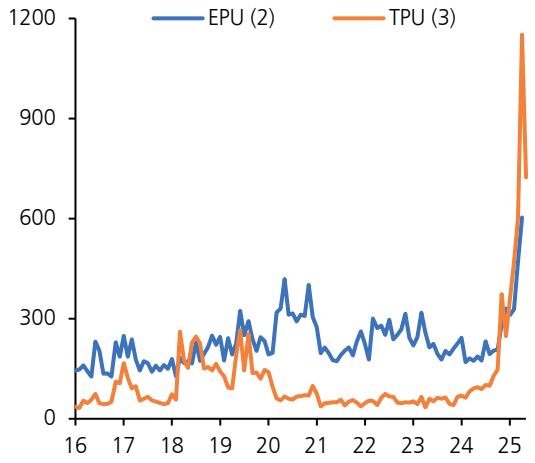
Since the last IPoM, one of the main news of the external outlook has been the generalized increase in tariffs announced at the beginning of April by the United States government and its repercussions (Figure I.1a). The changing development of the process—marked by announcements, retaliations, postponements and judicial decisions—has made it difficult to assess its short, medium and long-term impacts. This has translated into a considerable increase in global economic uncertainty, in a context where, in addition, other risk elements—such as geopolitical tensions, especially after the recent escalation of the Middle East conflict, and the high fiscal indebtedness of some economies—remain in force (Figure I.1b).

FIGURE I.1

a) United States average tariff (1)
(percent)



b) Uncertainty indicators
(index)



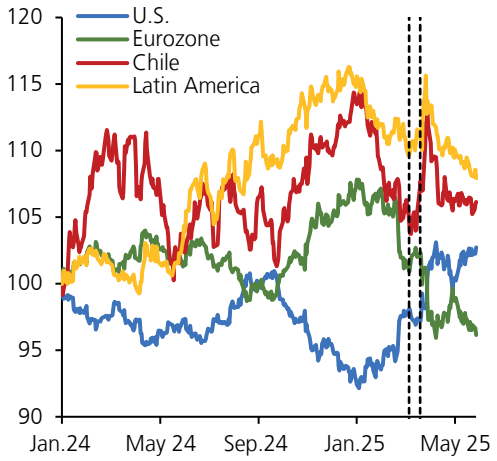
(1) The dashed line corresponds to the average tariff considered in the March 2025 IPoM. The yellow diamond corresponds to the average tariff after the April 2 announcements. The blue diamond corresponds to the average tariff as of April 12, after the increase to 145% of the tariff on China. The red diamond corresponds to the average tariff as of June 11 (statistical closing date of this Report). (2) Corresponds to the Global Economic Policy Uncertainty Index. (3) Corresponds to the Trade Policy Uncertainty Index. Sources: Central Bank of Chile, US International Trade Commission, Tax Foundation, Baker, Bloom & Davis (2016) and Caldara, Iacoviello, Molligo, Prestipino & Raffo (2020).

International financial markets have exhibited an unusual behavior in the face of a shock of this type. Instead of observing a greater preference for US assets—e.g., Treasury bonds—as in other episodes of uncertainty, demand for them has fallen, the dollar has depreciated and emerging economies' assets have performed better (Box I.1). Thus, in several countries stock markets have risen, long-term interest rate differentials with the United States have narrowed and their currencies have strengthened against the dollar (Figure I.2). Latin America has performed similarly to the rest of the emerging markets, which is possibly linked to the fact that, with the exception of Mexico, the tariffs announced by the United States for the region are at the minimum of 10%.

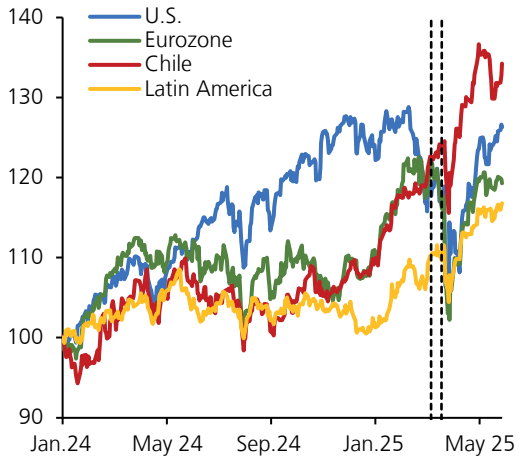
Local financial conditions have also evolved relatively more favorably than would have been anticipated. Compared to the March IPoM, short-term nominal interest rates have fallen, long-term rates have not changed substantially, the IPSA has increased and the exchange rate is at similar levels to those at the statistical closing of the said Report. All this, with significant fluctuations in the meantime.

FIGURE I.2 FINANCIAL CONDITIONS

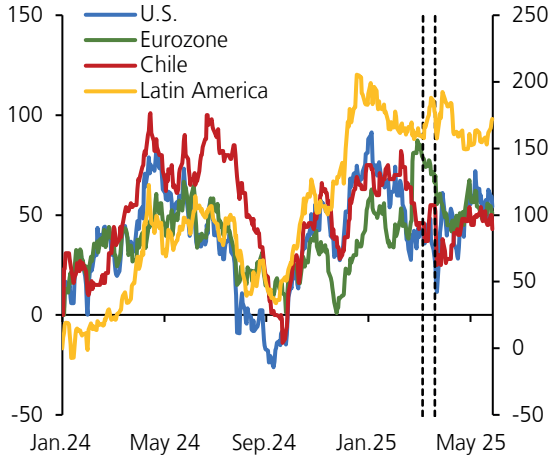
a) Currencies (1) (2) (3)
(index 01.Jan.24=100)



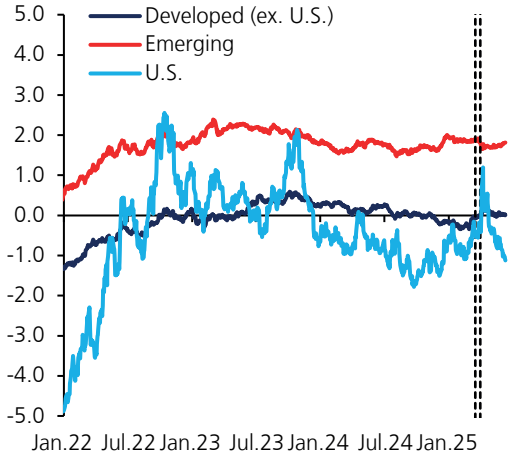
b) Stock markets (1) (2)
(index 01.Jan.24=100)



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



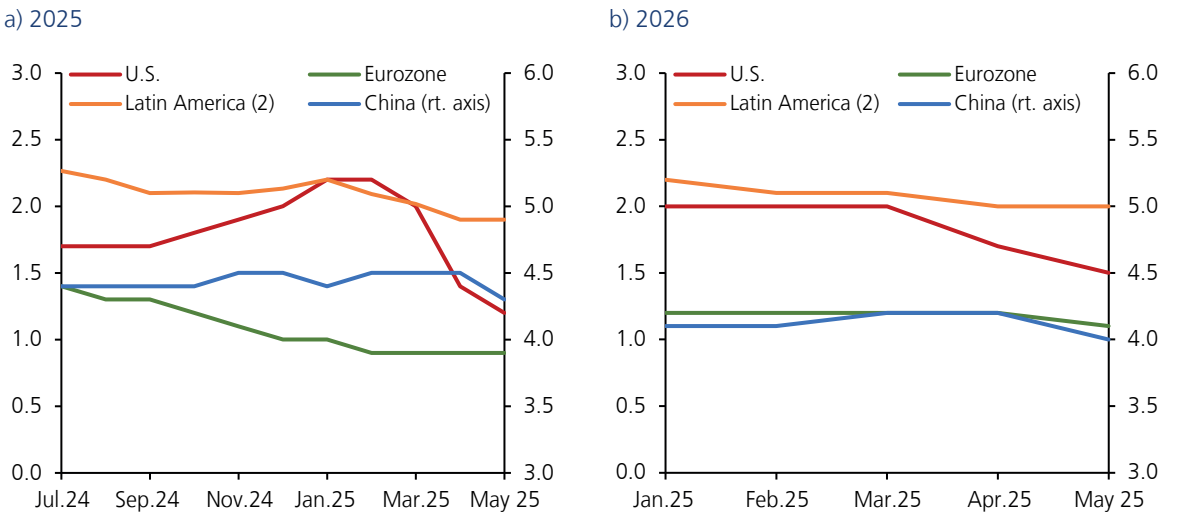
d) Goldman Sachs financial conditions index (2) (5)
(standard deviations)



(1) For Latin America, the simple average of the indices for Brazil, Mexico, Colombia, and Peru is used. (2) The left-hand dashed vertical line marks the statistical closing of the March 2025 Report; the right-hand dashed vertical line marks the tariff announcement date. (3) An increase in the index corresponds to a currency depreciation, and vice versa. For the U.S., the multilateral exchange rate is used. (4) Latin America corresponds to the right axis. (5) Standardized indices with mean and standard deviation between 2010 and 2019. For Developed, it corresponds to the simple average of the Eurozone, the United Kingdom, Canada, Australia, New Zealand, Norway, and Sweden. For Emerging, it corresponds to the simple average of Thailand, Malaysia, Indonesia, the Philippines, South Africa, Hungary, Poland, Brazil, Mexico, and Chile. A higher value indicates tighter financial conditions.
Sources: Central Bank of Chile, Bloomberg and Goldman Sachs.

In the real scope, the events of recent months have begun to have a negative impact on global growth prospects, particularly in the United States. In that country, household and business expectations have deteriorated, which, amid rising indicators of uncertainty, anticipate further weakness in consumption and investment in the coming quarters. In addition, Moody's downgraded its credit rating due to the deterioration of the fiscal situation, which continues to be a factor of concern. All this has been reflected in a fall in the market outlook for the growth of the United States economy in 2025 and 2026 (Figure I.3).

FIGURE I.3 CONSENSUS FORECASTS: GLOBAL GROWTH PROJECTIONS (1)
(percent)

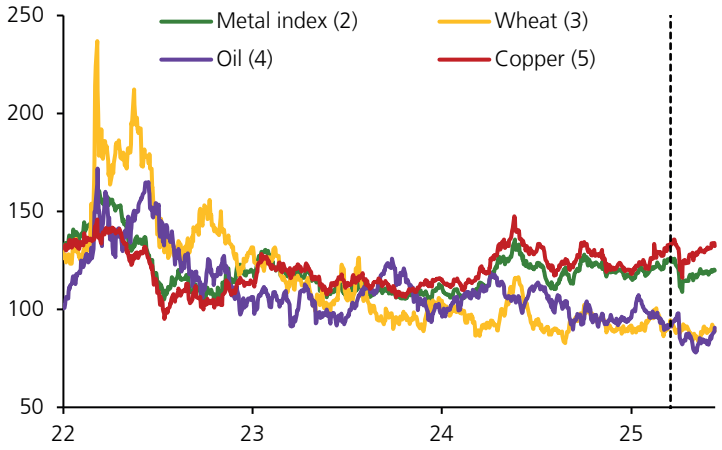


(1) The latest information available at the closing of this Report corresponds to May 2025. (2) Considers Brazil, Argentina, Peru, Colombia and Mexico. PPP-weighted growth, shares of each economy according to WEO (IMF).
Sources: Consensus Forecasts and IMF.

Although to a lesser extent, markets' growth projections for other trading partners have also moderated. The increase in uncertainty has led to lower growth prospects in other countries (Figure I.3). In the case of China, the impact of the trade conflict is compounded by factors such as the weakness of its real-estate sector and the high levels of local government debt, which nonetheless could be partially offset by announcements of fiscal stimulus plans. The outlook for Latin America has also been downgraded, especially in Mexico, considering its close trading ties with the United States and the uncertainty surrounding tariff policies. In any case, with this exception, revisions to expected growth in the region have been slight (Figure I.3).

The escalation of trade tensions has had an impact on commodity prices, albeit with mixed effects (Figure I.4). On the one hand, after a significant drop in the first days of April, the price of copper is similar to that at the closing of the March IPoM. The threat of tariffs impositions on this metal—which has led to an accumulation of inventories in the United States—has given some support to its price, together with growth projections that have not changed substantially in China and a supply that is still expected to be limited compared to projected demand. Additionally, the increase in geopolitical tensions tends to favor the copper price, as greater spending on defense and strategic storage is anticipated (Box I.2 of the June 2024 IPoM). On the other hand, the price of oil have fallen by around 5% with respect to the closing of the previous Report. This was explained by the increase in global uncertainty, the expectations of lower global growth and higher expected supply after some OPEC members announced they would advance production. In any case, the intensification of tensions in the Middle East, which occurred after the statistical closing of this IPoM, has pushed oil prices up in the last few days. Lastly, the FAO food price index for May, although with some fluctuation, accumulated increases with respect to February (the last figure known at the closing of the previous IPoM). In its recent evolution, the index for meat and dairy products has risen while cereals and sugar have fallen.

FIGURE I.4 COMMODITY PRICES (1)
(index, 2010-2025 average=100)

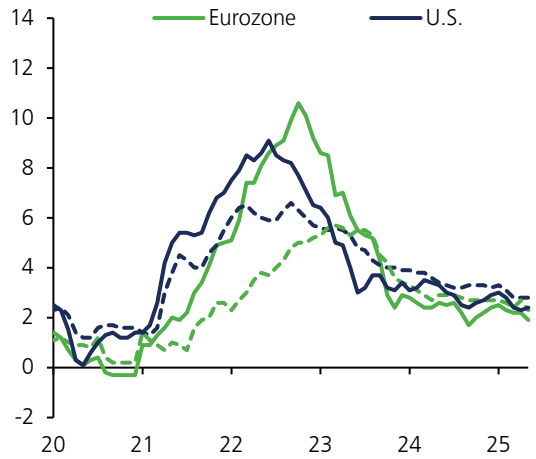


(1) Dashed vertical line corresponds to the statistical closing of the March 2025 IPoM. (2) S&P GSCI Industrial Metals. (3) Prices of futures one-month ahead. (4) WTI and Brent simple average. (5) Corresponds to the LME price.
Source: Bloomberg.

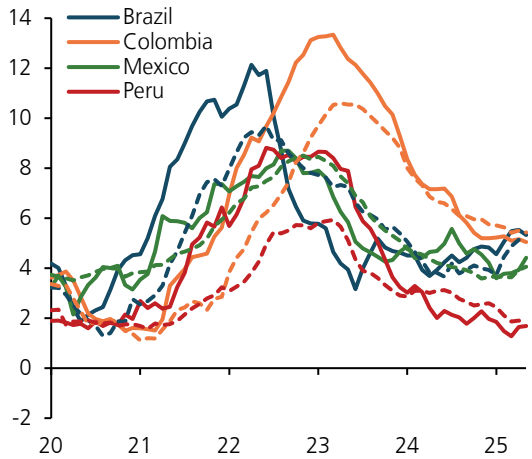
The process of inflationary convergence continues at a global level, although with differences among countries, which translate into different perspectives for their monetary policy (Figure I.5). Expectations of a more restrictive trajectory stand out in the United States where, although inflation has surprised on the downside lately, its short-term projections have risen due to the expected effects of the imposition of tariffs. At its May meeting, the Federal Reserve (Fed) held the Fed funds rate, acknowledging an increase in uncertainty and inflationary risks, and adopting a more cautious wait-and-see stance (Figure I.6). In the Eurozone, despite some persistence in the services component, inflation has also declined, and the European Central Bank cut its rate by 50 basis points (bp) since the March IPoM. The Bank of England has also cut its rate. In Latin America, the inflation convergence process has slowed in recent months. Despite this, Colombia, Peru and Mexico reduced their benchmark rates, pointing to possible downside risks due to trade tensions.

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

a) Developed economies

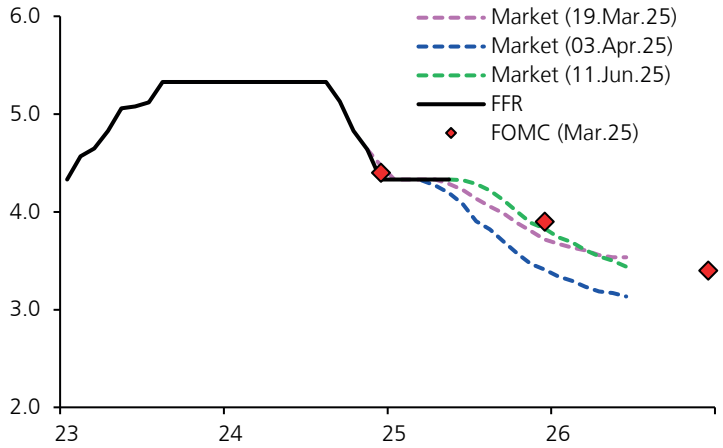


b) Latin America (3) (4)



(1) Dashed lines correspond to core inflation. (2) Core figures exclude food and energy. (3) Peru's headline inflation rate corresponds to that of Lima. (4) Core inflation for Brazil, Colombia, and Peru excludes food and fuel.
Source: Bloomberg.

FIGURE I.6 FED FUNDS RATE (*)
(percent)



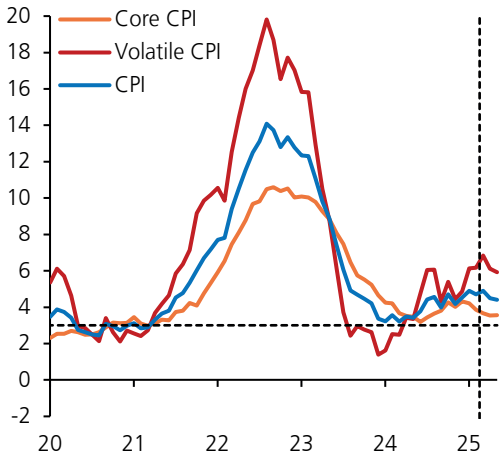
(1) FOMC projections correspond to the mid-range of the Fed funds rate presented in Mar.25; market projections are for the mid-range of the Fed funds rate of futures at the March 2025 FOMC (19.Mar.25), at April 3 (the day after the first tariff announcements) and at the statistical closing of this IPoM (June 11).
Source: U.S. Federal Reserve and Bloomberg.

THE DOMESTIC SCENARIO

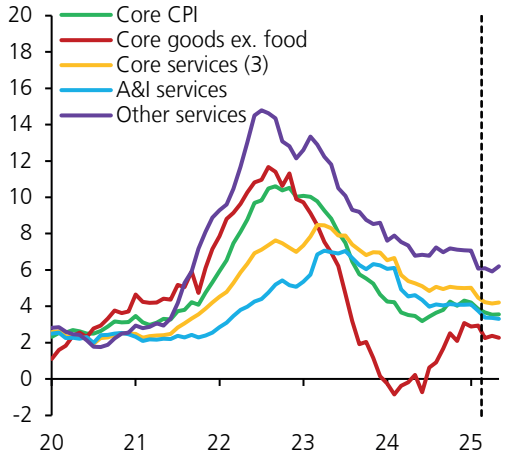
Headline inflation have remained high—still influenced by the rise in electric bills that began to materialize in June of last year—while core inflation is around 3.5%. In May, total annual inflation reached 4.4% (4.7% in February, the latest figure at the close of the March IPoM) and core inflation—non-volatile CPI—was 3.6% (3.9% in February) (Figure I.7).[1]/ The evolution of the non-volatile component was explained by a fall in annual terms of the share of goods and core services, particularly in administered and indexed (A&I) services. In the last months, the volatile component has also shown some decline, influenced especially by the fall in international fuel prices (Figure I.8).

FIGURE I.7

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

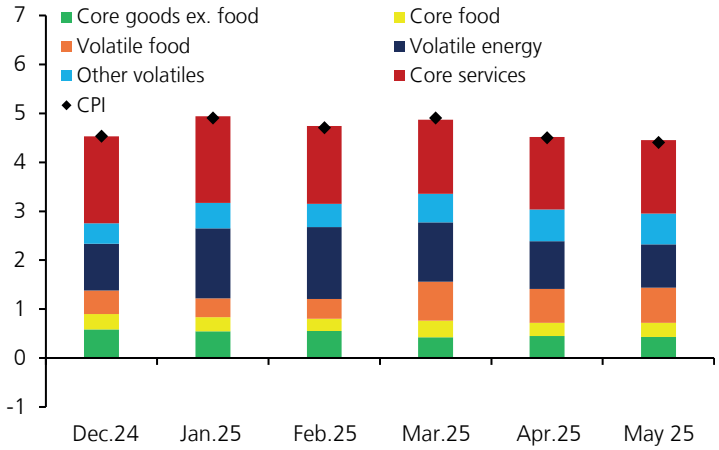


b) Core inflation (1) (2)
(annual change, percent)



(1) Prior to 2025, the CPI series considers the 2023 reference basket with the BCCh splicing. (2) Dashed vertical line corresponds to the statistical closing of the March 2025 IPoM. (3) Considers the sum of Administered and Indexed services (A&I) and Other services.
Sources: Central Bank of Chile and National Statistics Institute.

FIGURE I.8 CONTRIBUTIONS TO ANNUAL CPI
(contributions, percentage points)



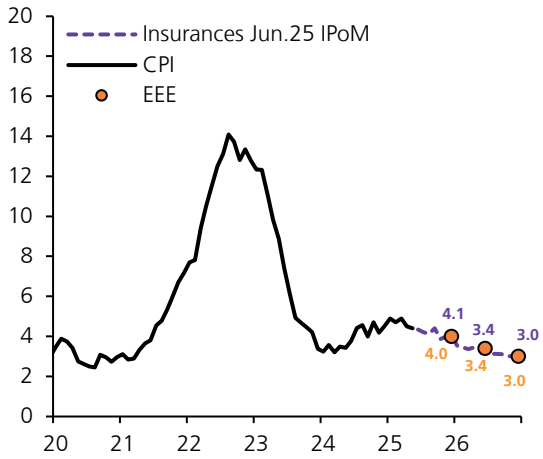
Sources: Central Bank of Chile and National Statistics Institute.

[1]/ Prior to 2025, the CPI series considers the 2023 reference basket with the BCCh splicing.

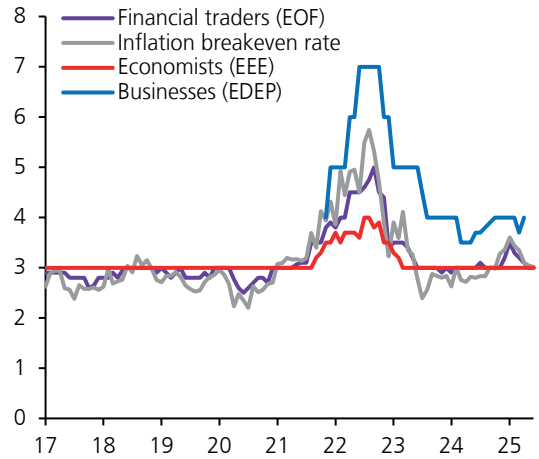
Upside risks to inflation have moderated in recent months. Two-year inflation expectations have realigned with the 3% target (Figure I.9). Moreover, it is not observed that the cost shocks of previous quarters are causing higher-than-expected second-round effects. As for the exchange rate, after its significant rise following the tariff announcements in early April, it returned to its previous level. In fact, most of the interviewees in the May Business Perceptions Report (IPN)—prepared after the tariff announcements—estimate that the exchange rate is around or below the levels that they had foreseen for this year. However, the peso has depreciated against the basket of currencies of trading partners, which has had an upward impact on the real exchange rate. On the other hand, the evolution of oil and fuel prices has been downward as a result of, among other factors, trade tensions. Nevertheless, recent developments of the military conflict in the Middle East could imply a reversal of this element.

FIGURE I.9

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



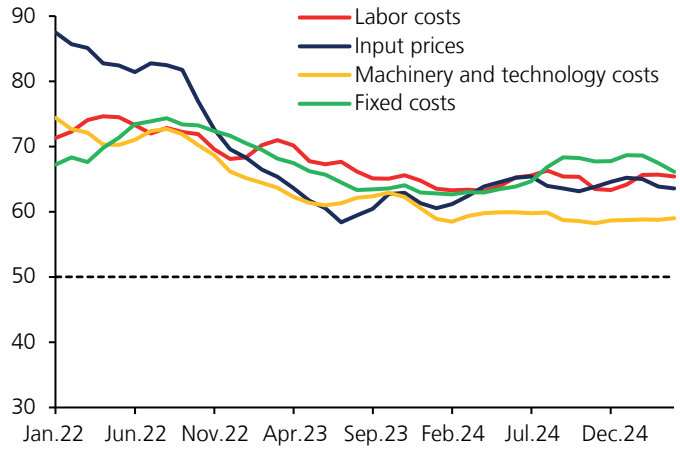
b) Two-year inflation expectations (2) (3) (4)
(percent, annual change)



(1) Prior to 2025, series consider the 2023 CPI reference basket with the BCCh splice. Insurances consider average prices of the last ten days as of June 11th. (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. 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 June 2025 it uses the average of the 8 business days as of June 11th.
Source: Central Bank of Chile.

Labor costs continue to grow at high rates and firms are expressing some degree of concern about their future trajectory. Since mid-2024, the labor cost index has shown sustained growth, registering in April an annual variation of 8.5% in nominal terms. As for the real index, such increase reached 3.8%, standing in recent months at highs not seen since 2017. This occurs in a context in which the firms interviewed for the May IPN report some concern about the rise in labor costs going forward, and in which the Price Determinants and Expectations Survey (EDEP) shows some degree of persistence in its evolution (Figure I.10).

FIGURE I.10 EDEP: EVOLUTION OF FIRMS' COSTS IN THE LAST 3 MONTHS (*)
(diffusion index)

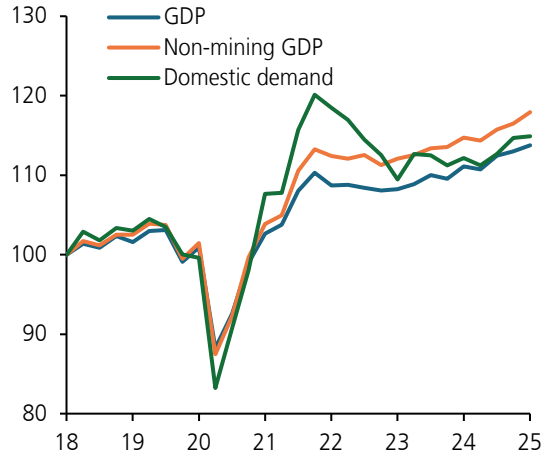


(*) Values above 50 indicate a higher proportion of responses indicating an increase, while values below 50 indicate a higher proportion of responses indicating a decrease.
Source: Central Bank of Chile.

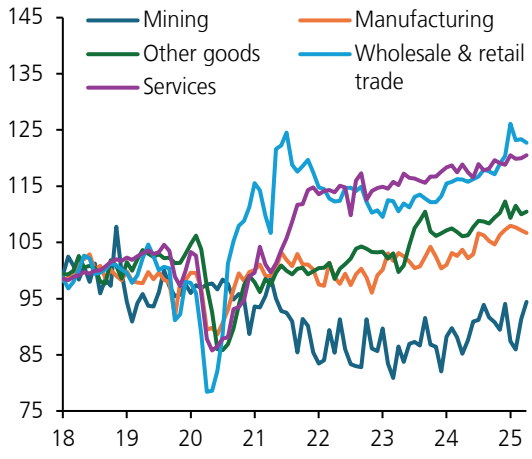
First-quarter activity surpassed the forecasts in the March IPoM, driven by export-related sectors. Data at the margin showed some reversal in some of these elements, while the services sectors remained dynamic. In the first quarter, seasonally adjusted total and non-mining GDP grew 0.7% and 1.2% compared to the previous quarter (q/q) respectively (2.3% and 2.8% in annual variation, original series) (Figure I.11). This result was largely explained by supply factors related to exports and foreign tourism in Chile. The fruit sector (shipments of cherries, grapes and stone fruits, among others), fishing (influenced by the higher catch of sardines), the food industry (favored by the aforementioned sectors), trade and some services stood out. In April, the seasonally adjusted non-mining Imacec had a variation of 0.3% month on month (1.8% annual), a figure in which the performance of services stood out in contrast to the fall in manufacturing industry and wholesale and retail trade, which would point to a dissipation of the effects of some of the supply elements that boosted activity in previous months.

FIGURE I.11

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



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

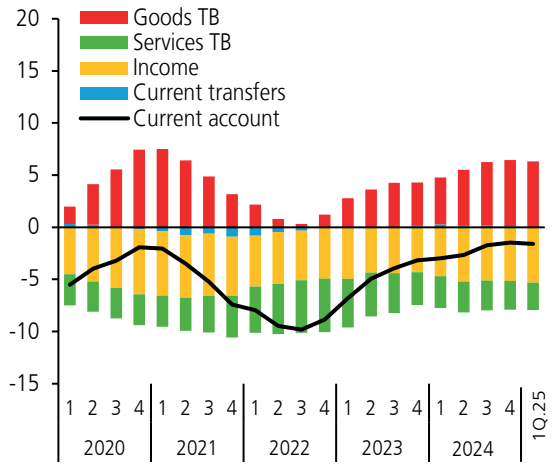


Source: Central Bank of Chile.

The accumulated twelve-month current account deficit remained at around 1.5% of GDP (Figure I.12). Domestic savings, for their part, continue to be driven by the increase in private savings. In the cumulative annual sum, national savings reached 21.6% of GDP in the first quarter of 2025 (21.8% in the previous quarter and 20.5% in the same period last year). Regarding the trade balance, goods exports grew across the board, where the impact of mining and manufacturing deserves special mention. With regard to services, exports associated with inbound tourism stood out. Imports of goods increased generally, with a notable contribution of imports of consumer and capital items. On the other hand, the income deficit posted limited increase with respect to the previous quarter.

FIGURE I.12

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

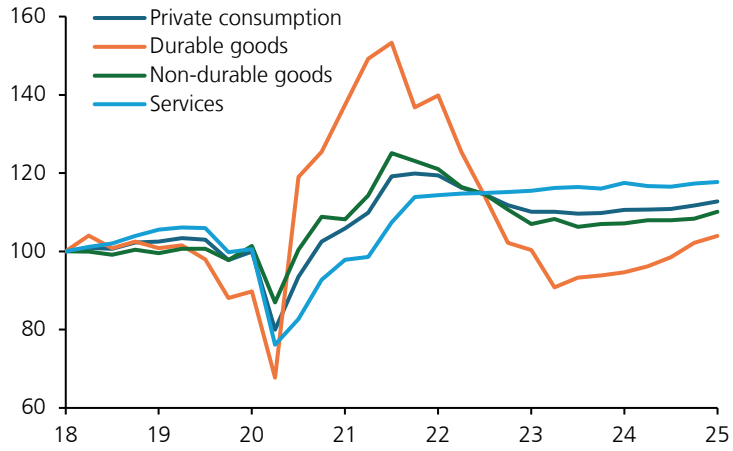


b) Exports of goods and services
(index 1Q2018=100, real seasonally adjusted series)

Source: Central Bank of Chile.

Private consumption expanded again in the first quarter, particularly that of goods (Figure I.13). In seasonally adjusted terms, household spending increased 1.0% q/q in the first quarter (1.8% annually). The dynamism of durable goods (technological products) and non-durable goods (clothing and footwear) stood out, while services showed a slowdown compared to the previous quarter. High-frequency indicators —electronic ticket sales, retail trade activity index (IACM) and imports of consumer goods—- suggest that the dynamism has been maintained in the second quarter, although with some moderation compared to previous months. Meanwhile, after the drop in the previous quarter, government consumption expanded 3.1% annually in the first quarter, driven by health-care spending.

FIGURE I.13 PRIVATE CONSUMPTION BY COMPONENTS
(index 1Q2018=100, real seasonally adjusted series)



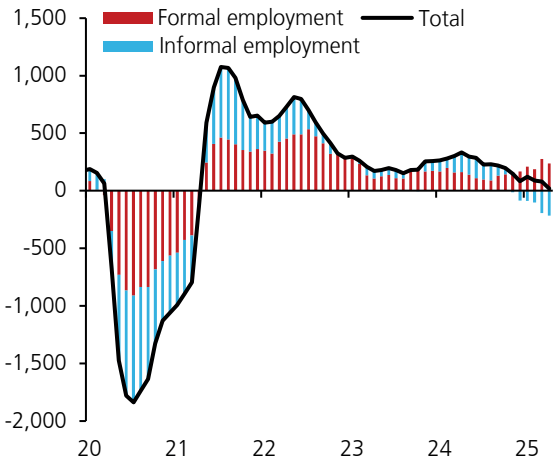
Source: Central Bank of Chile.

The labor market has shown mixed signals in recent months (Figure I.14). On the one hand, the unemployment rate for the moving quarter ending in April reached 8.8%, while job creation has decelerated in the last year (+0.2% annually). On the other hand, the composition of employment has improved. During the last few quarters, there has been a notable drop in labor informality (–8.2% y/y) and an increase in formal employment (+3.5% y/y). This, in a context in which wage growth has remained high from a historical perspective, associated with recent legislative changes (Box I.2 in December 2024 IPoM).

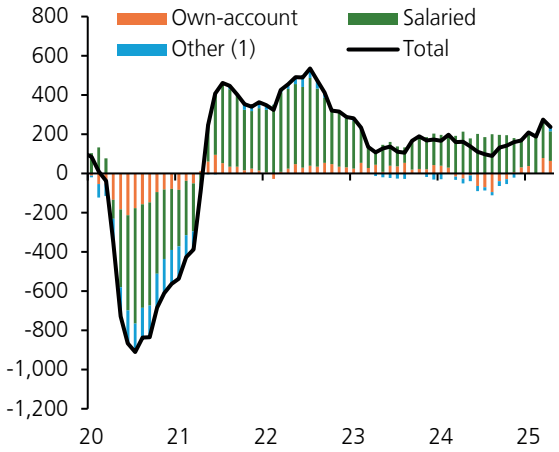
FIGURE I.14 LABOR MARKET

a) Unemployment, employment and participation
(percent)

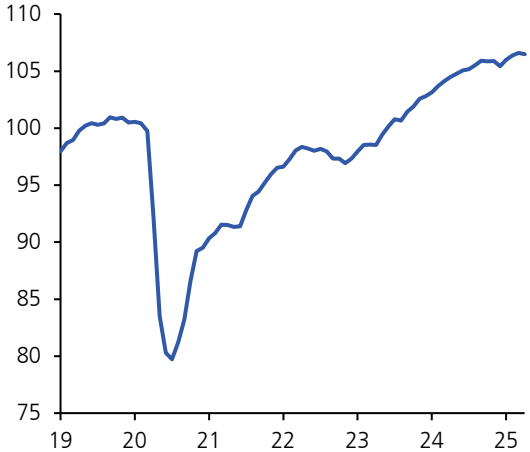
b) Employment by occupational category
(annual difference, thousands of people)



c) Formal employment
(annual difference, thousands of people)



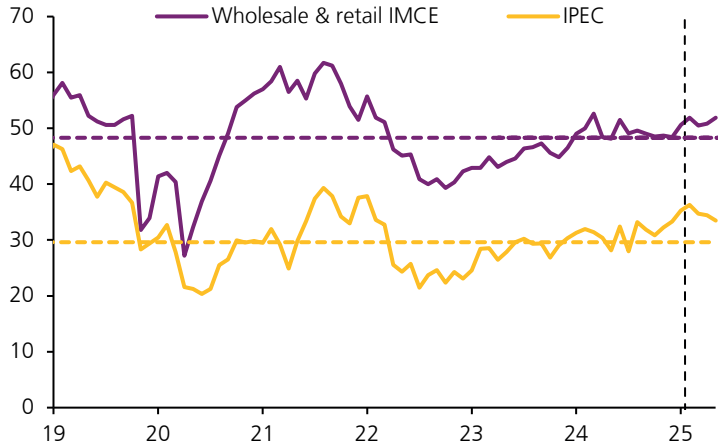
d) Real wage bill (2)
(index 2019=100, real seasonally adjusted series)



(1) Considers employers and domestic workers. (2) Estimate based on seasonally adjusted series of real LCI, habitual worked hours and employment.
Sources: Central Bank of Chile and National Statistics Institute.

Other private consumption fundamentals continue to point to a favorable evolution of this part of spending in the coming quarters (Figure I.15). As reported in the Financial Stability Report (IEF) for the first half of the year, the financial burden of households has fallen and a decrease in debt service has been observed in lower-income households. Household expectations (IPEC), on the other hand, remain somewhat above the end-2024 records, despite some fall in the margin. In this context, the trade outlook (wholesale and retail IMCE) has remained above its neutral value.

FIGURE I.15 WHOLESALE & RETAIL IMCE AND IPEC (1) (2)
(diffusion index)



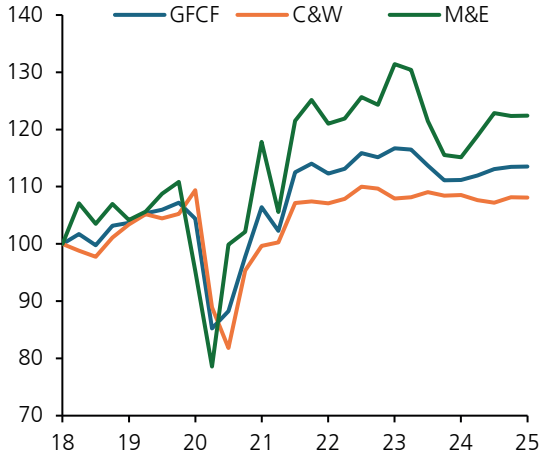
(1) Value above (below) 50 indicates optimism (pessimism). (2) Dashed vertical line corresponds to the statistical closing of March 2025 IPoM. Dashed horizontal lines corresponds to 2020-2025 average of each index.
Sources: ICARE/UAI and GfK Adimark.

In the first quarter of the year, GFCF exhibited poor performance, while indicators continue to show marked sectoral heterogeneity (Figure I.16). After a year of consecutive quarterly increases, the seasonally adjusted GFCF series showed no variation in the first quarter (1.4% annually), with similar performances both in construction and other works and in machinery and equipment. By sectors, the differences reported in previous reports remained, characterized by the greater momentum in mining and a more moderate performance in the other sectors.

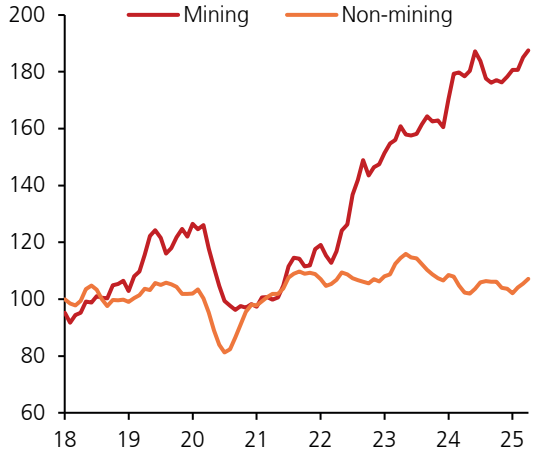
Various sources point to a more favorable performance of GFCF in the period ahead (Box I.2). The Capital Goods Corporation (CBC) survey for the first quarter of 2025 showed a significant improvement in the outlook for this and the next few years (+19% with respect to the fourth quarter 2024 survey), especially for the mining and energy sectors. This, in a context in which imports of capital goods have grown strongly during the year. In addition, the information gathered in the May IPN shows that the impact of the greater external uncertainty on firms has been limited and that investment expectations have improved with respect to the end of 2024.

FIGURE I.16

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



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



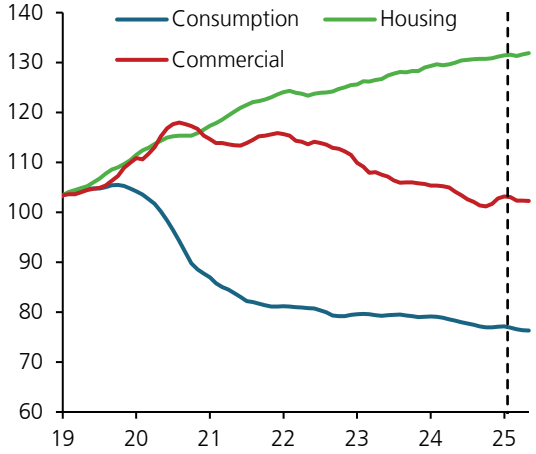
(*) Methodological details are found in the Minute of Boxes of the September 2024 Report.
Sources: Internal Revenue Service (SII), Customs and Central Bank of Chile.

Bank lending continued to show no major changes in recent months, while demand for funds remains weak (Figure I.17). Consumer and commercial loans continue to show negative real annual variation rates, in a scenario where the financing needs of companies and households have remained contained. The Bank Credit Survey (ECB) for the first quarter continues to show low demand for investment financing for large companies, consistent with the sectoral behavior observed in the GFCF. Companies participating in the May IPN that a cautious approach to borrowing prevails. Short-term interest rates have not shown major changes recently. In the housing segment, loans continue to grow at a slow pace.

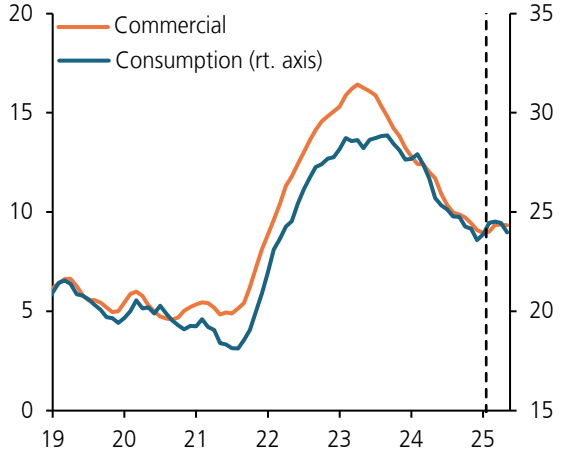
Expectations for the MPR at different horizons have been adjusted slightly downwards with respect to the last IPoM. For December of this year, the EEE and the expectations implicit in the overnight index swap (OIS) rates place it at 4.5% (4.75% and 5.0% at the close of the March IPoM, respectively). In the one-year term, the EEE and EOF surveys and OIS rates also show declines and forecast an MPR of 4.25%. Towards the end of the monetary policy horizon, expectations from the EEE and EOF surveys project it at 4.25% (4.25% and 4.5% in March, respectively), while the OIS rates anticipate that it will stand at 4.5% (5.0% in March).

FIGURE I.17

a) Real loan stock (1) (2)
(index 2018 average = 100)



b) Lending interest rates (1) (3) (4)
(percent)



(1) Dashed vertical line corresponds to the statistical closing of March 2025 IPoM. (2) 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. (3) Weighted average rates of all transactions in Chilean pesos performed each month in the Metropolitan Region (4) Quarterly moving average is used.
Source: Central Bank of Chile.

BOX I.1:

Evolution of global financial conditions

Unlike previous episodes of increase of uncertainty, the events of the last few months have triggered an unusual reaction in the prices of financial assets. On the one hand, in the United States, during the most critical days since the beginning of April—where significant increases in the VIX and sharp falls in the stock market were observed—long-term rates rose, at the same time as the dollar depreciated, defying the historical correlation between these two assets.[1]/ On the other hand, financial conditions for emerging markets have shown an evolution more favorable than would be expected in a typical scenario of global risk aversion.

For some time now, US long-term rates have been behaving differently than usual. Their tendency to rise rather than fall in recent episodes of increased war conflicts (Box I.1 in December 2024 IPoM) stands out, largely explained by the implications of these conflicts on defense spending, in a context of challenging fiscal conditions.

The main novelty of the current situation is that the increase in the long-term rate has coincided with a sharp depreciation of the dollar, breaking a strong historical correlation (Figure I.18). This could be construed as a scenario of increased risk perception regarding the United States economy, reducing the preferences for all its assets—not only long-duration bonds—, including the stock market. As a matter of fact, although the latter has recovered from the sharp falls of April, when compared to its level at the beginning of the year, it is among the worst performers globally (Figure I.19).

Reszczynski et.al. (2025) indicate that the aforementioned higher risk perception could be explained by the apparent lower predictability of the institutional and public policy framework in the United States, added to the deterioration of its historical strategic alliances. The authors quantify at around 30 basis points (bp) the effect of these elements on the increase of the 10-year rate since early 2025 (blue bar in Figure I.20).

One direct consequence of the lower preference for U.S. assets is the tightening of financial conditions relevant to consumption and investment in that economy. Reszczynski et.al. (2025) build an indicator of financial conditions that provides a structural reading of their movements. This indicator shows a significant contraction from the second quarter of this year, mainly explained by the greater risk perception and a greater preference for short-term assets (blue and yellow bars in Figure I.21).

Another collateral effect of the greater United States risk is that the rest of the world has become less risky in relative terms, which has tended to favor its asset prices (Box I.1 in March 2025 IPoM). In Latin America, it is also considered that—with the exception of Mexico—the region has so far not been the main focus of U.S. tariff announcements and is neither directly nor indirectly part of the ongoing military conflicts. In this context, the long-term rate differential with the United States has narrowed by around 30 bp since the beginning of the year. The financial conditions index for Latin America—Reszczynski et.al. (2025)—show neutral conditions for the region, in which the perception of lower local risk and somewhat looser monetary policy outlooks offset the risks coming from the United States (Figure I.22).

[1]/ There is extensive theoretical and empirical evidence on the increase in the value of safe haven assets in the face of increased global uncertainty events, including those of heightened trade uncertainty, such as those occurred in 2018-2019. See, for example, Carlomagno and Albagli (2022); Jiang, Krishnamurthy and Lustig (2018, 2023); Georgiadis, Müller and Schumann (2024); Miranda-Agrippino and Rey (2022).

Conclusions

Global financial markets are showing an atypical behavior in the face of the increase in global uncertainty. This has caused a significant deterioration of financial conditions in the United States, which explains part of the downward correction in that economy's growth included in the March IPoM, increased in this one. Moreover, in the face of new episodes of uncertainty, the change in correlations between fixed- and variable-income assets in the US could amplify the negative wealth effects for households and firms, and also amplify the losses of financial intermediaries. This could increase markets volatility, beyond the usual effect of possible new announcements.

From the Latin American perspective, unlike what might have been expected in the face of greater global uncertainty, financial conditions have not deteriorated significantly. Thus, the usual channel through which global uncertainty shocks are transmitted more rapidly to emerging economies has been inactive. This justifies a limited deterioration of the growth outlook in the central scenario of this IPoM. However, given the high volatility of markets and tariff announcements, there is the risk of this channel being activated, which is captured in the sensitivity scenario that determines the lower bound of the MPR corridor.

FIGURE I.18
Differential between US and Eurozone rates, and dollar (*)
(euros per dollar)

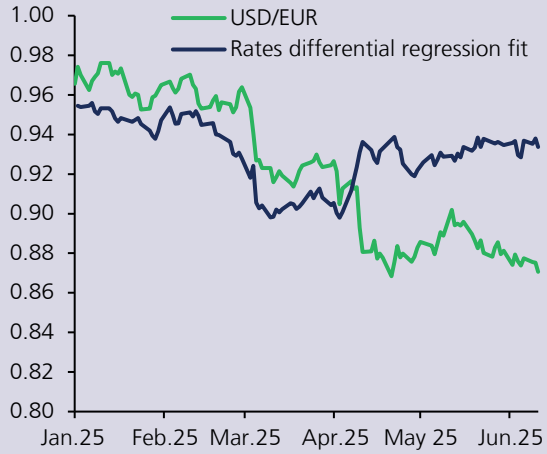
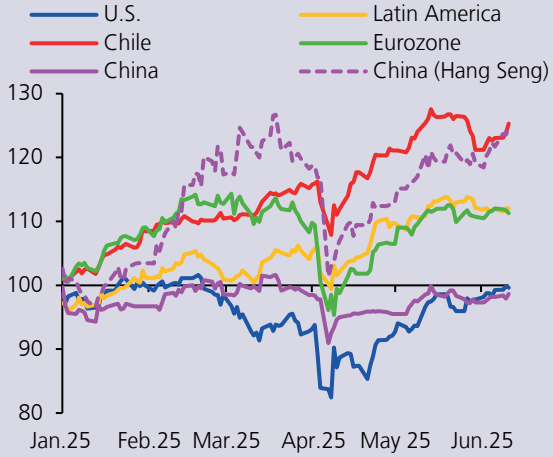


FIGURE I.19
Stock indices
(index 100 = 01/12/24)



(*) Estimates obtained based on a linear regression between the US 10-year bond rate differential and the German 10-year bond rate.
Sources: Central Bank of Chile based on data from Bloomberg.

FIGURE I.20
US 10-year rate breakdown (1)
(accumulated since 01.Dec.24, basis points)

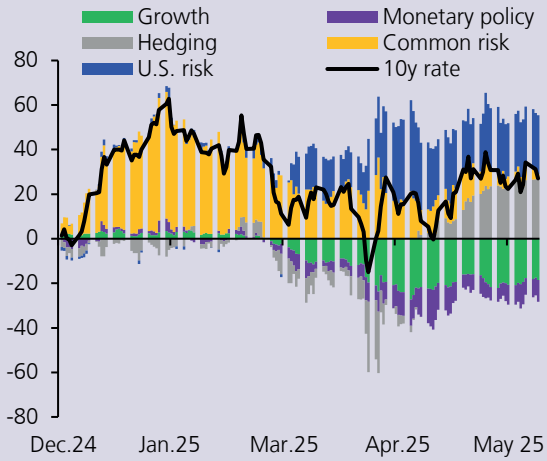
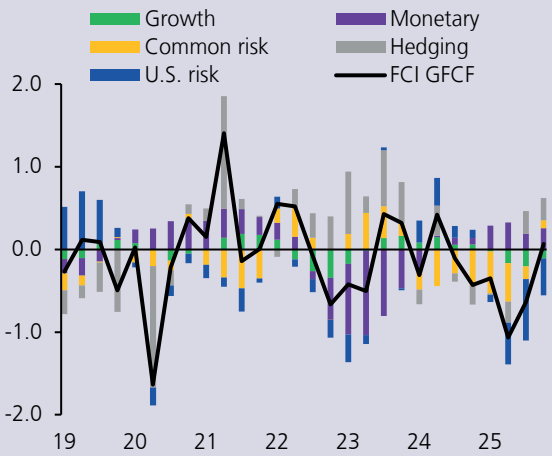
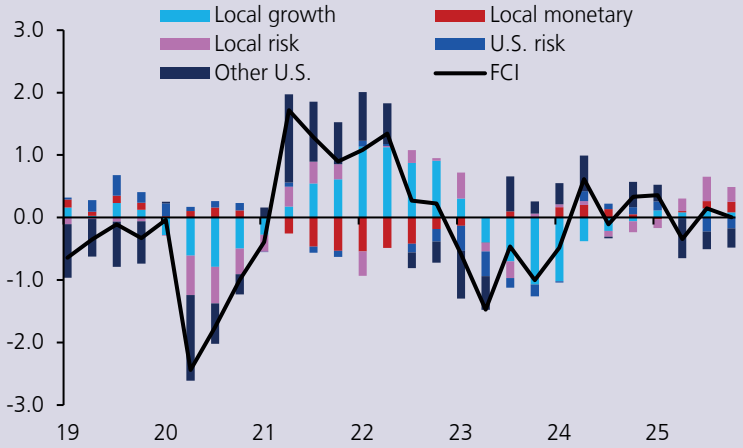


FIGURE I.21
US Financial Conditions Indices - GFCF (2)
(standard deviations, annual change)



(1) Shocks estimated based on SVAR model with sign restrictions. For details, see Reszczynski *et.al.* (2025). (2) Financial conditions index that relates structural shocks to changes in gross fixed capital formation, based on Albagli, Carlomagno, Ledezma y Reszczynski (2025). Out-of-sample estimation assumes effective shocks and zeros to complete Q2 2025. Henceforth, shocks=0.
Source: Reszczynski *et al.* (2025).

FIGURE I.22
Latin America Financial Conditions Indices - GFCF (*)
(standard deviations, annual change)



(*) Financial conditions index that relates structural shocks to changes in gross fixed capital formation, based on Albagli, Carlomagno, Ledezma y Reszczynski (2025). Out-of-sample estimation assumes effective shocks and zeros to complete Q2 2025. Henceforth, shocks=0. Latin America corresponds to the average between Chile, Brazil and Colombia.
Source: Reszczynski *et al.* (2025).

BOX I.2:

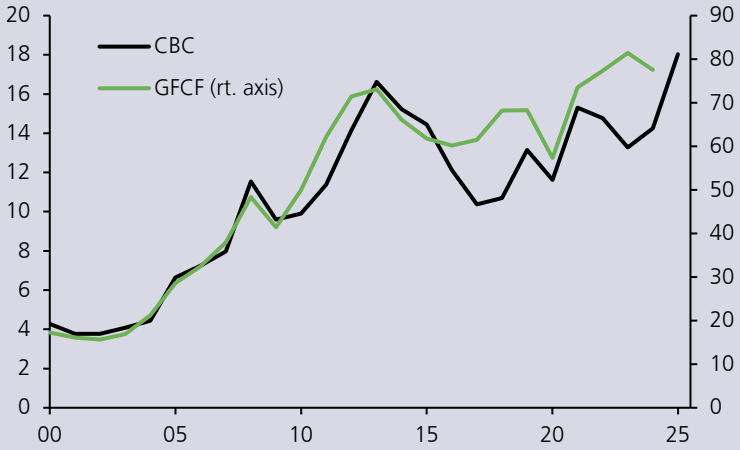
Prospects for investment in large-scale projects

The outlook for investment in large-scale projects for this and the next few years has been rising, driven by the mining and energy sectors. This box reviews the available data sources on investment projects and discusses the implications for gross fixed capital formation (GFCF) projections, based on historical dynamics and the characteristics of current projects.

Investments surveys and connection with GFCF

A first source of information is the Capital Goods Corporation (CBC) survey. This survey considers projects with capital expenditures of more than US$5 million, usually concentrated in sectors such as mining, energy and real estate[1]/, and defined timelines spanning from the basic engineering stage to construction[2]/. Historically, investment surveyed represents between 20 and 25% of GFCF, and shows high correlation with the annual evolution of the latter (Figure I.23).

FIGURE I.23
Investment according to the CBC survey and GFCF (*)
(billions of dollars, annual series)



(*) The investment amount from the CBC survey corresponds to the latest available report, which is published in the fourth quarter of the following year. For 2024 and 2025, the survey from the first quarter of 2025 is used.
Sources: Central Bank of Chile and CBC.

The latest CBC survey, corresponding to the first quarter of this year, recorded an investment estimate of US$63 billion for the five-year period 2024-2028. This is an increase of US$10 billion with respect to the survey for the end of 2024. As a percentage, this increase —19%— significantly exceeds (by three standard deviations) the historical average of revisions between the fourth quarter of one year and the first quarter of the next, which was 2% between 2002 and 2024. As has been the case since 2023, the upward revisions were mainly explained by the mining and energy sectors (Figure I.24a).

[1]/ For the real estate sector, investment amounts equal to or greater than US$15 million are considered.

[2]/ In addition, the CBC registry generally includes projects with an environmental presentation in the System of Environmental Impact Assessment (SEIA), most of them with approval of the Environmental Qualification Resolution. If no environmental presentation is made, projects are registered if they come from information provided directly by the firms, the CBC contact network, or from a verifiable and reliable source.

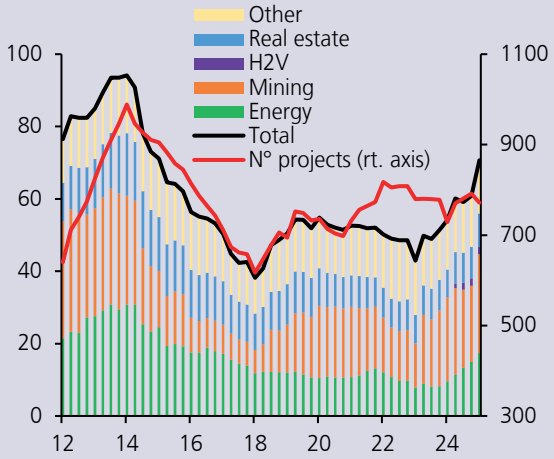
Another source of information is the survey of projects undergoing the process of environmental qualification registered by the System of Environmental Impact Assessment (SEIA)[3]/. This source indicates that the total number of projects under evaluation amount to nearly US$110 billion, of which around US$75 billion were entered and admitted during the last year, a record high since 2012 (Figure I.24b). Around two thirds correspond to the energy sector, where a large proportion is related to green hydrogen (H2V) projects, whose weight in the CBC registry is more limited, but growing.

Projects' characteristics and historical dynamics

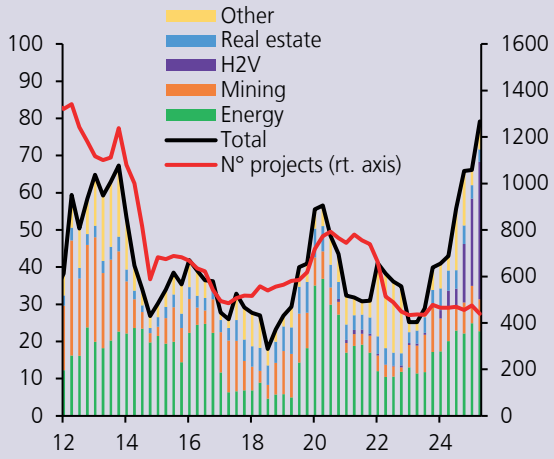
As for the projects' characteristics, those in the mining sector are focused on extending the useful life of existing deposits, desalination plants and site maintenance services. Thus, the higher investment would contribute to reduce costs and maintain the mining production capacity, so the latter would not be significantly expanded (Box I.1 in September 2024 IPoM).

FIGURE I.24

(a) CBC: Evolution of five-year amounts (1)
(billions of dollars; number of projects, seasonally adjusted series)



(b) SEIA: Evolution of amounts submitted (2)
(billions of dollars; number of projects)



(1) X13-ARIMA is used for seasonal adjustment. Others includes forestry, manufacturing, public works, ports and technology sectors. (2) Yearly moving sum of projects submitted and admitted to the SEIA. For each quarter, the amounts admitted, qualified and awaiting qualification are considered. Others includes the agricultural, equipment, forestry, transportation infrastructure, hydraulic and port, fishing and environmental sanitation sectors.
Sources: Central Bank of Chile, CBC and Environmental Assessment Service (SEA).

In the energy sector, there is a growing momentum for energy storage and transmission projects, contrasting with somewhat lower prospects for upstream investment. This is so because of growing surpluses of renewable energy generation, which drive incentives to invest in storage, as well as in transmission and distribution networks. Meanwhile H2V projects focus on hydrogen production through water electrolysis with wind or solar energy and its conversion to ammonia for export using ports as logistics centers.

[3]/ Large-scale investment projects must have the approval of a series of environmental permits, in order to subsequently or simultaneously process the approval of other sectoral permits. For details on the investment cycle and how it relates to the flows entered into the SEIA, see Claro et al. (2025).

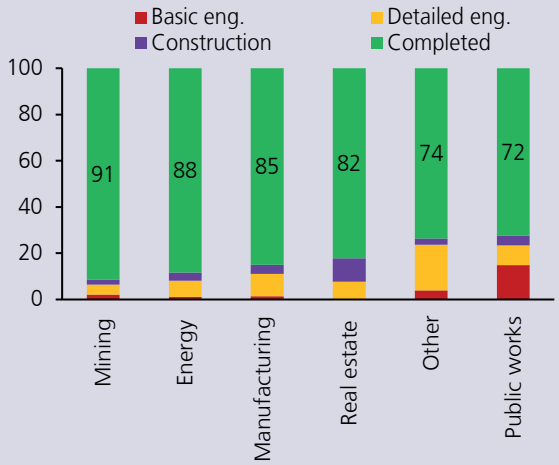
There are currently 13 H2V projects in the SEIA, which are valued at US$42 billion. Of these, three projects account for 90% of the total volume. These mega-projects are of high complexity, with several stages and subject to various environmental and sectoral permits. A review of the international experience shows that the estimated duration for the development of H2V projects is usually more than five years from their announcement. This considers one to two years in the stages of pre-investment and formalities, and three to four years for construction. To date, the three megaprojects have been under review in the SEIA for between one and ten months.

Locally, experience with projects of this nature is limited. On average, other energy projects that obtained their Environmental Qualification Resolution during 2024 took 30 months to complete this process. To this must be added the time required to obtain sectoral permits, which lasts an average of 17 months for the most complex projects (Claro et al., 2025). In any case, there is a high degree of heterogeneity in these timelines, and it cannot be ruled out that the full processing may take longer[4]/.

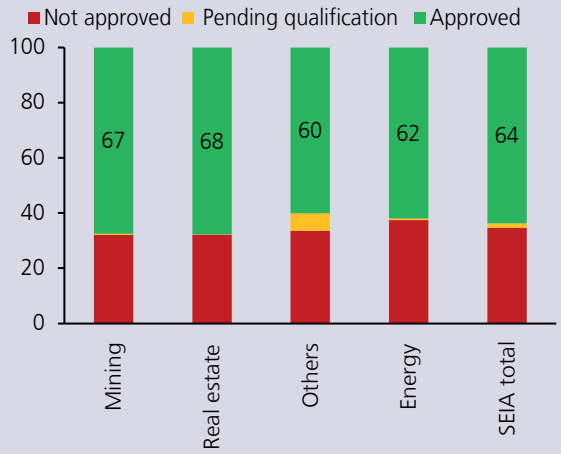
In terms of the probability of completion, the projects that enter the CBC registry tend to reach terminal stages. In mining and energy, for example, the proportion of completed projects was around 90% of all those entered since 2015 (Figure I.25a). However, the proportion approving environmental processing is lower, with approval rates of 67% and 62% in the mining and energy sectors, respectively, between 2011 and 2020 (Figure I.25b). Finally, in sectoral processing, the approval rate between 2018 and 2022 for the most complex permits was around 60% (Claro et al., 2025).

FIGURE I.25

(a) CBC: Removal status of the projects, 2015-2025 (1)
(percent of submitted projects)



(b) SEIA: Approval rate, 2011-2020 (2)
(percent of billions of dollars)



(1) Projects are removed from the survey once completed, but they may also be withdrawn in advance. The estimate considers the stage the project was in the last time it appeared in the survey. The estimate includes data up to the first quarter of 2025.(2) Estimation based on the total flow of submitted, accepted, and qualified projects. The 'not approved' category includes rejected, withdrawn, expired projects, among others.
Sources: Central Bank of Chile, CBC and SEA.

[4]/ For example, according to information from the National Commission for Evaluation and Productivity, a mining project that includes hydraulic works can take around 70 months to process its environmental impact study and sectoral permits, while a port construction project can take around 50 months.

Implications for forecasting

The evidence presented suggests a high probability that the greater investment amounts in large projects foreseen in the CBC survey will materialize in GFCF. Thus, these projects, mainly mining and energy —which respond to a large extent to long-term structural factors— contribute to increase the GFCF projection in the central scenario of this IPoM, through an additional expansion of mining investment and a recovery of the non-mining component. Additionally, there is high potential for an increase in investment as a result of projects in the pipeline, mainly linked to the energy transition and H2V. However, given the high complexity of these projects and the time involved, the probability of materializing in the two-year projection horizon is lower, so they are not considered for the central scenario forecasts.

II. FUTURE EVOLUTION OF MONETARY POLICY

The projections in the central scenario of this IPoM resemble those of March. The external outlook and related risks have become considerably more uncertain, due to repercussions from both the trade tensions and the Middle East conflict escalation after this Report's statistical cut-off date for projections. Regarding the first factor, its impact on global and local activity is not yet evident. This is so partly due to the more benign evolution of global financial conditions compared to past episodes, which has mitigated the impact of the financial channel. In fact, the outlook for global growth has changed little with respect to the March Report, because the latter had already made a significant adjustment in this variable. Locally, activity was more dynamic than anticipated in the first quarter, explaining a large part of the revised GDP range for this year, which was adjusted at the lower end, from 1.75%-2.75% to 2%-2.75%. A growth range of 1.5-2.5% is still estimated for 2026 and 2027. Headline inflation has declined in line with expectations, while core inflation has been lower. Inflation projections are unchanged from March and are expected to converge to the 3% target in the first half of next year. However, if the central scenario of this IPoM materializes, in the following quarters the Monetary Policy Rate (MPR) will be approaching its range of neutral values. The Board will assess the future movements of the MPR considering the evolution of macroeconomic conditions and their implications for the convergence of inflation.

ACTIVITY AND DEMAND PROJECTIONS IN THE CENTRAL SCENARIO

THE INTERNATIONAL SCENARIO

The wide-ranging increase in tariffs announced by the U.S. government in early April has had significant repercussions to the external scenario, leading to a considerable increase in global economic uncertainty. The escalation of the war in the Middle East aggravates this scenario. This is an event that began to be observed after the statistical closing of this Report on June 11th, so its impacts are not accounted for in this central projection scenario.

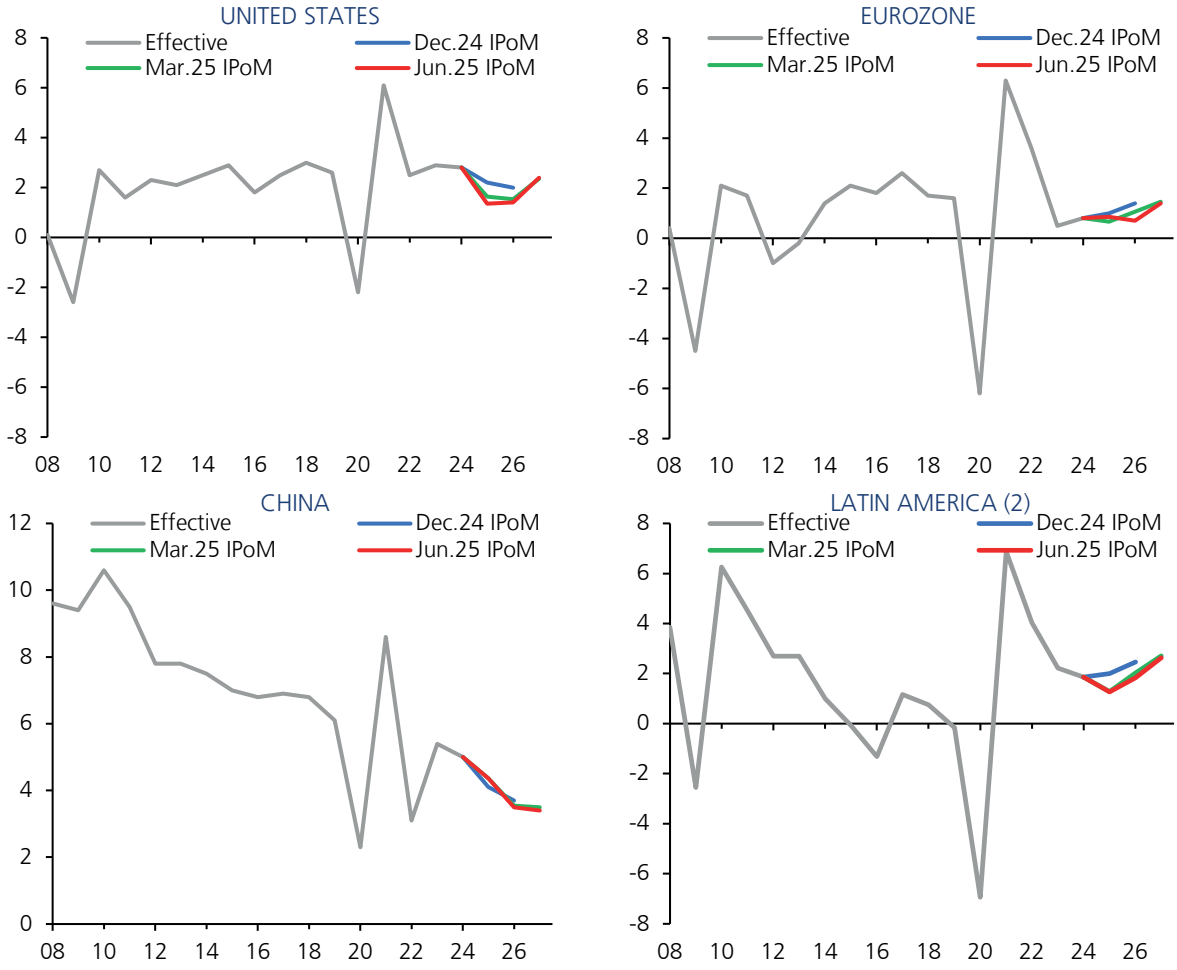
The impact of trade tensions on global activity is expected to be negative. However, the fluctuating evolution of the process —including announcements, retaliations, and postponements— has generated high uncertainty about its short-, medium- and long-term repercussions.

One particular factor in this episode has been the reaction of financial conditions, which, for the emerging world, has been more favorable than expected. Thus, unlike former periods of risk aversion, appetite for U.S. assets has fallen, while emerging economies' assets have performed favorably, due to their lower relative risk (Box I.1 and Chapter I).

The growth forecast for the trading partners is slightly reduced, to an average of 2.6% in the period 2025-2027 (2.7% in March). The main adjustment, though limited, is concentrated in the United States. It should be noted that in March, a significant revision was made to US growth to reflect the increase in trade tensions. The projections for the rest of the world see milder changes, in line with comparatively better financial conditions and more limited deterioration in most countries' indicators of expectations and uncertainty. The expected impact of the reversal of the momentum on exports in the

Eurozone and China, generated by the anticipation of import tariffs by the United States stands out. All this has been reflected in the market outlook, which is revised downwards for US growth, while for other economies the changes have been minor (Chapter I) (Figure II.1 and Table II.1).

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



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

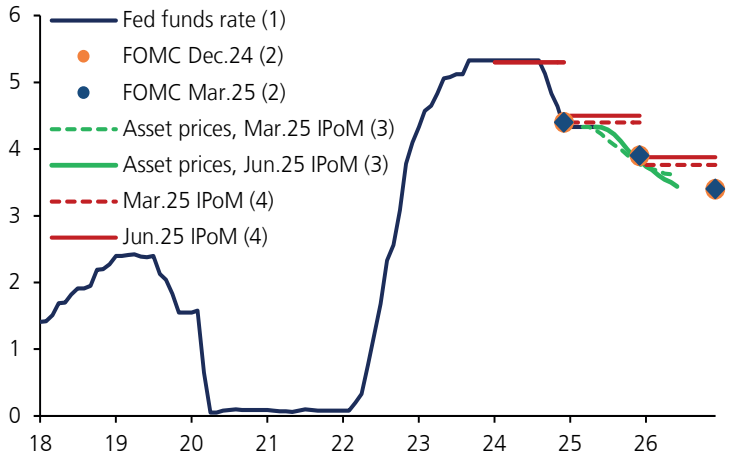
TABLE II.1 WORLD GROWTH (*)
(annual change, percent)

	Aveg. 10-19	2023	2024 (e)	2025 (f)	2026 (f)	2027 (f)
World GDP at PPP	3.7	3.7	3.4	2.6	2.6	3.1
World GDP at market exchange rate	3.3	3.0	2.9	2.1	2.1	2.6
Trading partners	3.9	3.5	3.3	2.6	2.4	2.7
United States	2.4	2.9	2.8	1.4	1.4	2.4
Eurozone	1.4	0.5	0.8	0.9	0.7	1.4
Japan	1.2	1.4	0.2	0.8	0.4	0.6
China	7.7	5.4	5.0	4.4	3.5	3.4
India	6.7	9.2	6.5	5.7	5.8	6.8
Rest de Asia	4.5	3.1	4.0	2.9	3.1	3.8
Latin America (excl. Chile)	1.8	2.2	1.9	1.3	1.8	2.6
Commodity exp.	2.2	1.4	1.0	1.2	1.3	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.

The perception that the tariff increase will impact both activity and inflation in the United States has led the Federal Reserve (Fed) to adopt a more cautious tone. With the information available at the statistical close, we anticipate that during this year tariff-related cost pressures will begin to drive up inflation. Projections also assume that the negative impacts on activity will be more visible towards the end of the year. In the central scenario, a Fed funds rate reduction of 25 basis points (bp) is foreseen by the end of 2025 and three in 2026 (two for both years in the previous IPoM) (Figure II.2). This outlook is similar to that of the leading investment banks.

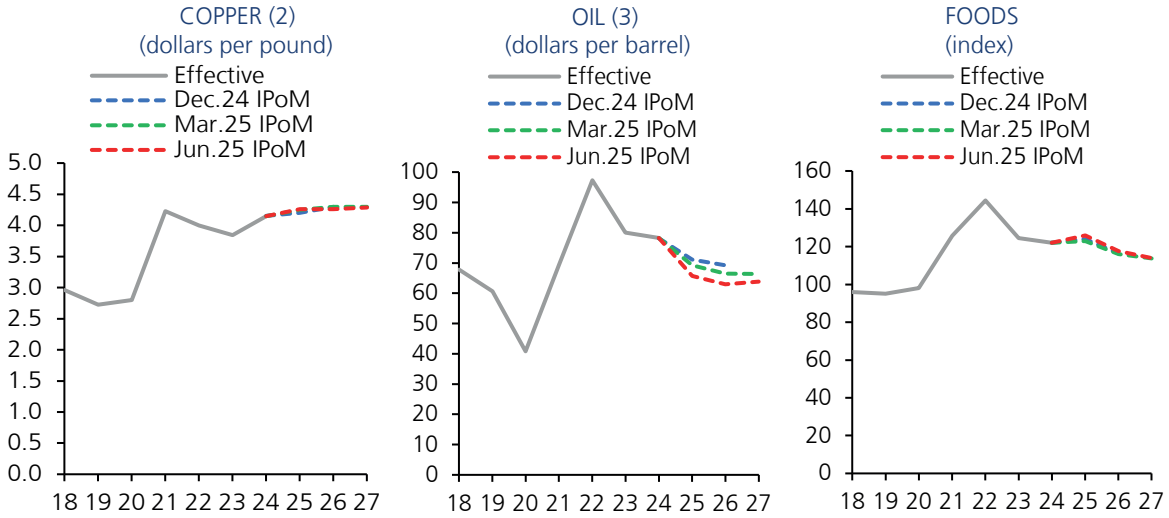
FIGURE II.2 EVOLUTION AND FORECASTS FOR THE FED FUNDS RATE
(percentage points)



(1) Actual Fed funds rate. Considers information up to May 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 terms of trade are revised up from March, given the stable trajectory of the copper price and a minor drop in the oil price. Copper is expected to continue trading at around US$4.3 per pound on average between 2025 and 2027. This considers the impact of trade tensions, a supply-demand balance that is still expected to be tight, and geopolitical tensions (Chapter I and Box I.1 in the June 2024 IPoM). For oil, slower global growth prospects and the production increase announced by some OPEC countries lower its Brent-WTI average price. Accordingly, the price of a barrel is expected to go from US$66 to US$64 between 2025 and 2027 (from US$69 to US$66 in March). The price of gasoline undergoes a similar adjustment. Meanwhile, international food prices are revised upward for 2025 and the next two years, reflecting their recent evolution (Table II.2 and Figure II.3). However, the unfolding war in the Middle East could lead to increases in the international price of fuels or trade barriers that could modify this scenario.

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.

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	2.9	2.1	1.1
External prices (in US$)	0.6	-0.2	-0.7	1.3	1.4	1.5
			(levels)			
LME copper price (US$cent/pound)	306	385	415	430	430	430
WTI oil price (US$/barrel)	72	78	76	64	61	62
Brent oil price (US$/barrel)	80	83	81	68	65	66
Gasoline parity price(US$/m3) (1)	610	721	660	555	500	512
US Federal Funds Rate (%) (2)	0.7	5.2	5.3	4.5	3.9	3.4

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

THE DOMESTIC SCENARIO

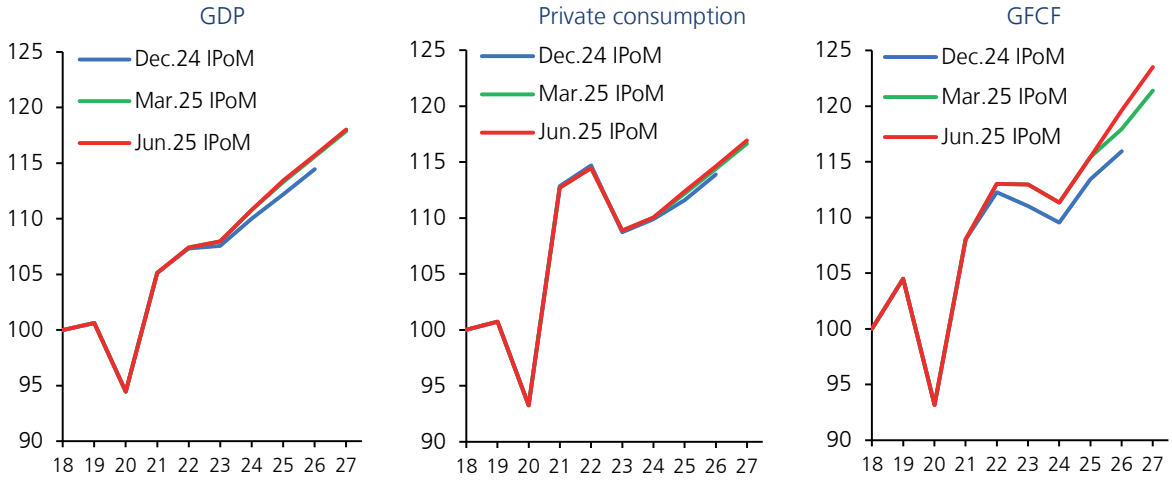
The central scenario of this Report assumes that the effect of the trade conflict and the greater global uncertainty on local activity will be limited. In the export sector, projections reflect the scope of the 10% tariff for a fraction of shipments to the United States. Trade with the rest of the world has not been affected and a potential redirection of exports to the local market and other destinations suggests minor impacts on activity, which would be more concentrated towards 2026 (Box II.1). In addition, as a working assumption, it considers that the increase in global financial uncertainty will not significantly affect investment, which factors in the more favorable evolution of variables such as interest rates and the stock market, as well as the minor deterioration of local agents' expectations (Box II.3). Importantly, these assumptions could be subject to revision to factor in the events of the last few days in the Middle East.

The growth range forecast for this year is revised to 2.0%-2.75%, because of the better performance of activity in the first quarter. In any case, this projection considers the reversal of some supply factors that boosted the performance of export-related sectors such as fruit production, fishery, and the manufacturing industry. Added to this is the expected moderation of the arrival of foreign tourists and its effects on the growth of items such as retail trade, and restaurants & hotels, among others. The latest Imacec showed that some of these elements have begun to fade out, while the services sectors have remained dynamic (Chapter I) (Table II.3 and Figure II.4).

The growth range for the next two years remains between 1.5% and 2.5. This considers that activity will be converging to an expansion trend, that the transitory elements that boosted growth in recent quarters will moderate, and that the economy will see limited effects from the trade tensions. These forces will be counterbalanced by the improved outlook for gross fixed capital formation (GFCF) (Table II.3 and Figure II.4).

Domestic demand is revised slightly upward, mainly driven by an acceleration of GFCF in the next two years. Worth noting are the better prospects for mining and energy projects for this and coming years (CBC) —to which could be added a potential increase in investment due to additional initiatives in the pipeline (Box I.2)—, and the increase in imports of capital goods so far this year. In the central scenario,

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.

the GFCF growth estimate is maintained at 3.7% for 2025, while for 2026 and 2027 it is raised to 3.6% and 3.3%, respectively (2.2% and 2.9% in March) (Table II.3 and Figure II.4).

Private consumption is expected to continue to rise around 2% annually over the projection horizon. This considers the steady growth of real labor income, the reduction in the financial burden of households and the stability of their expectations (Chapter I) (Table II.3 and Figure II.4).

For 2025, the central scenario incorporates the fiscal spending expansion described in the latest Public Finance Report (IFP), including the administrative adjustments noted. From then onwards, it considers the expenses committed reported therein.

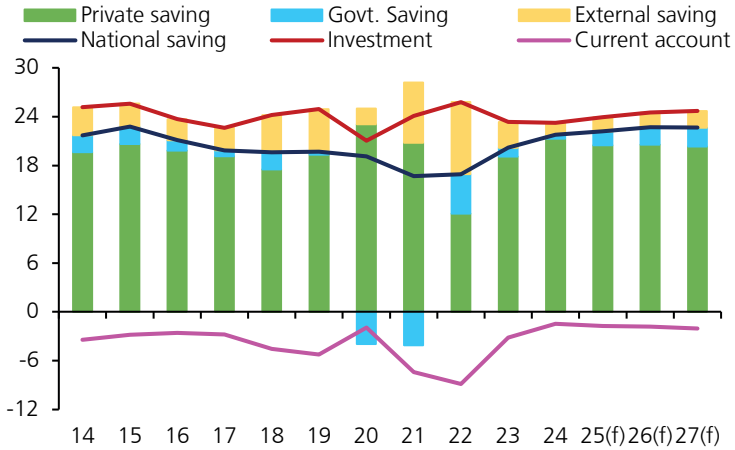
The projection for the current account deficit shows no major changes compared to March. This combines the better outlook for the services balance —favored by an increase in exports—, which this year will be offset by higher income and by 2026-2027 by a lower goods trade balance with respect to the previous IPoM. In the latter, a transitory increase in goods exports is forecast for 2025, in line with the greater volumes recorded so far this year and higher prices for non-mining shipments. Imports are also revised up from March, reflecting higher demand for tradable goods that would be partially offset by the lower outlook for tradables' prices due to the rerouting of shipments. In the central scenario, the forecast trajectory for national savings and total investment is also adjusted up, due mainly to the increase that the private sector will show in both variables (Table II.3 and Figure II.5).

TABLE II.3 ECONOMIC GROWTH AND CURRENT ACCOUNT

	2024	2025 (f)	2026 (f)	2027 (f)
		(annual change, percent)		
GDP	2.6	2.0-2.75	1.5-2.5	1.5-2.5
National income	2.8	3.1	2.8	2.4
Domestic demand	1.3	3.2	2.7	2.4
Domestic demand (w/o inventory change)	0.7	2.9	2.5	2.5
Gross fixed capital formation	-1.4	3.7	3.6	3.3
Total consumption	1.4	2.6	2.1	2.3
Private consumption	1.0	2.2	2.0	2.0
Goods and services exports	6.6	5.1	1.8	2.7
Goods and services imports	2.5	7.6	4.0	4.3
Current account (% of GDP)	-1.5	-1.8	-1.8	-2.0
Gross national saving (% of GDP)	21.8	22.2	22.7	22.7
Gross national investment (% of GDP)	23.2	23.9	24.5	24.7
GFCF (% of nominal GDP)	23.5	23.8	24.2	24.5
GFCF (% of real GDP)	23.2	23.4	23.8	24.1
		(US$ million)		
Current account	-4,853	-6,300	-7,000	-8,200
Trade balance	21,033	21,300	23,100	24,300
Exports	99,165	105,100	110,100	115,800
Imports	78,133	83,800	87,000	91,500
Services	-9,149	-8,800	-10,600	-12,000
Rent	-17,000	-19,000	-19,700	-20,700
Current transfers	264	200	200	200

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

FIGURE II.5 CURRENT ACCOUNT: SAVINGS AND INVESTMENT (*)
(percentage of annual GDP)

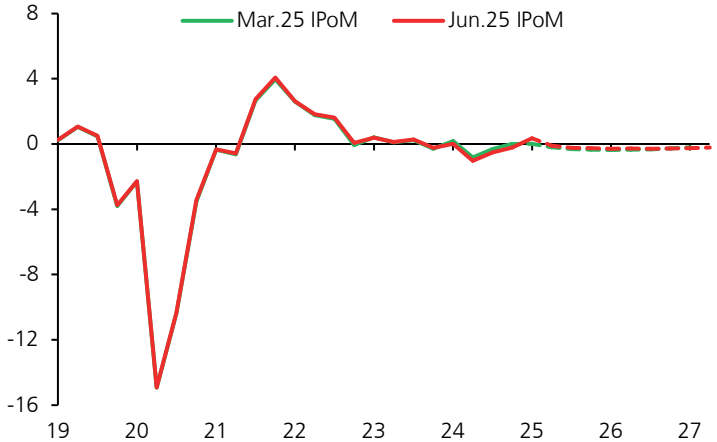


(*) The government savings component considers as actual data up to 2024 the general government's balance sheet; the government savings of the central government's balance sheet is used for the 2025-2027 forecast.
(f) Forecast.
Source: Central Bank of Chile.

THE ACTIVITY GAP AND CONVERGENCE OF INFLATION TO THE TARGET

The projection assumes that the activity gap will maintain a less negative path than was estimated in the previous IPoM (Figure II.6). This reflects, for one thing, the higher starting point for activity following the better performance earlier this year reported in the latest National Accounts, which also led to a marginal upward revision of potential GDP. Looking ahead, the factors that temporarily boosted GDP growth early this year are expected to dissipate gradually, while external demand would be somewhat lower than estimated in March. In addition, it incorporates the improved outlook for domestic demand, especially for investment. All this implies that the activity gap will remain slightly negative over the projection horizon.

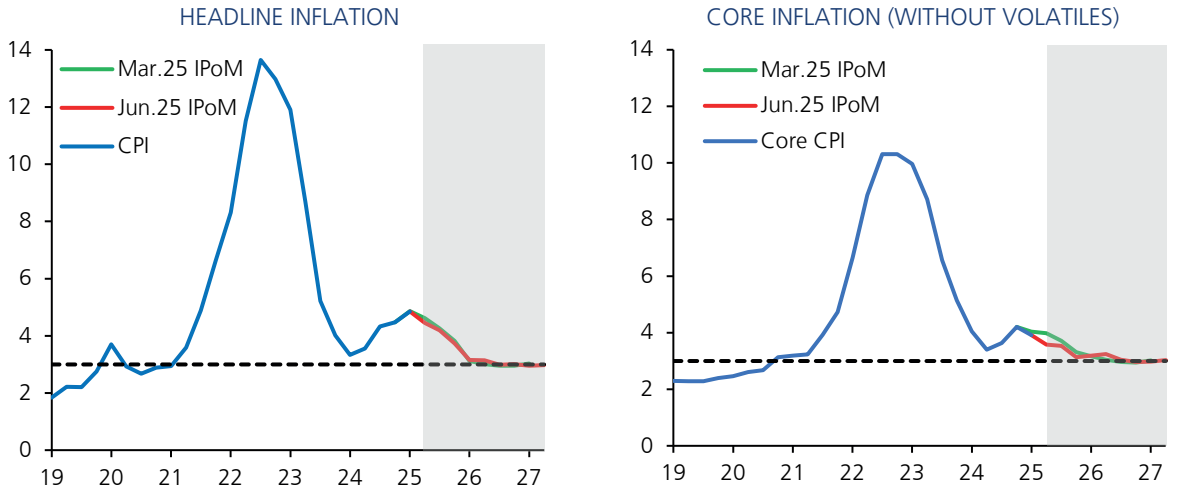
FIGURE II.6 ACTIVITY GAP (1) (2)
(level, percentage points)



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

The inflation trajectory in the central scenario does not change substantially compared to March. It is expected to converge to 3% annually during the first half of 2026 and then remain in the vicinity until the end of the projection horizon (Figure II.7 and Table II.4). Its expected evolution takes into account several factors. On the one hand, the better performance of domestic demand, particularly investment, a somewhat more depreciated real exchange rate during the projection horizon —to gradually return to its equilibrium levels— and the inclusion of new information regarding the process of adjusting electricity prices[1,2]/. On the other hand, there are the latest core inflation indicators —which turned out to be lower than expected in March—, the lower inflation resulting from global trade diversions —a negative impact of around 0.3 percentage points on the annual CPI variation of the CPI accumulated in the projection horizon (Box II.2)—, and the lower outlook for fuel prices projected at the statistical close. The latter does not consider the possible impact of conflicts in the Middle East.

FIGURE II.7 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 second quarter 2025, shows forecast.
Sources: Central Bank of Chile and National Statistics Institute (INE).

[1]/ The new information published by the National Energy Comission, along with the update of the exchange rate and indexers, modifies the estimate of electricity prices' adjustments going forward.

[2]/ It should be noted that, as in previous IPoMs, it is assumed that the repayment of the accumulated debt with the power distribution companies will not directly affect the CPI. This is so because Law 21,667 establishes that this debt will be repaid through recalculations, which are excluded from the CPI measurement (see INE's Methodological Manual).

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

	2024	2025 (f)	2026 (f)	2027 (f)
Average CPI	3.9	4.3	3.1	3.0
December CPI	4.5	3.7	3.0	3.0
CPI in around 2 years (2)				3.0
Average core CPI	3.8	3.5	3.1	3.0
December core CPI	4.3	3.1	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 second quarter of 2027.
(f) Forecast.
Sources: Central Bank of Chile and National Statistics Institute (INE).

MONETARY POLICY STRATEGY: THE CENTRAL ESCENARIO AND SENSITIVITIES

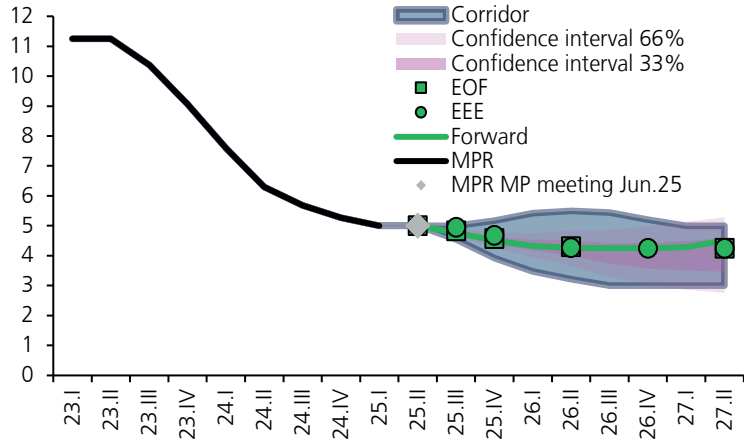
The markets' vision for the MPR has been revised down from the assumptions at the statistical cutoff of the March IPoM. For December 2025, the EEE and the expectations derived from financial asset prices —the Overnight Index Swap (OIS) rates— place it at 4.5% (4.75% and 5.0% at the close of the March IPoM, respectively). One-year forward, the surveys —EEE and EOF— and the OIS rates foresee an MPR of 4.25% (between 4.5% and 5.0% at the close of the March IPoM). Towards the end of the two-year monetary policy horizon, the different measures of market expectations place it between 4.25% and 4.5% (between 4.25% and 5.0% in March).

In recent months, inflation has evolved in line with projections and the upward risks that had appeared early in the year have moderated. Activity has exceeded projections; however, recent events in the Middle East have introduced a new source of uncertainty, which could develop into more complex scenarios.

If the central scenario of this IPoM materializes, in the following quarters the MPR will be approaching its range of neutral values. The Board will assess the future movements of the MPR considering the evolution of macroeconomic conditions and their implications for the convergence of inflation. It also reaffirms its commitment to conduct monetary policy with flexibility, so that projected inflation stands at 3% over the two-year horizon.

The MPR corridor includes sensitivity scenarios that are alternative to the central one and that have a significant probability of occurrence, in which monetary policy might follow a different course (figures II.8 and II.9).

FIGURE II.8 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 June Economic expectations survey (EEE), the June pre-MP meeting Financial traders survey (EOF) and the quarterly average smoothed forward curve as of June 11. 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 June 2025.

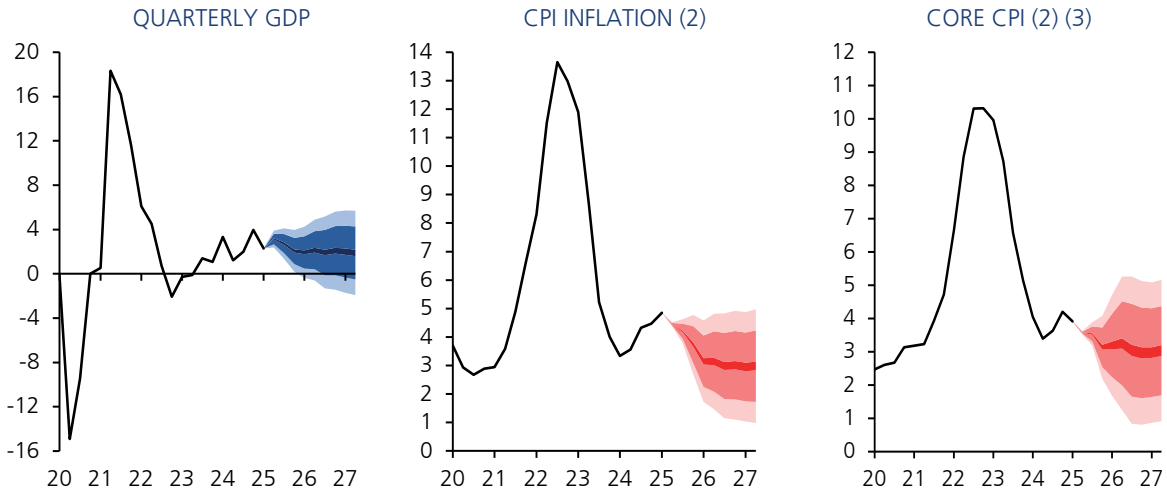
The upper bound represents a situation in which domestic demand is strengthened above expectations. This may come from a context in which business and household confidence improves, due to a decrease in global tensions, higher local growth prospects, or investments whose effects on the labor market and earnings are greater than anticipated.

The lower bound corresponds to a scenario in which the external scenario deteriorates, negatively affecting the global and local economies. This could be the case if trade tensions flare up and/or global uncertainty soars. This could lead financial markets to behave in a manner similar to previous episodes of risk aversion, including a depreciation of the peso. In addition to the financial repercussions and the fall in global demand, there would be the added impact of greater pessimism among agents, with downward effects on domestic demand.

International developments also define other sensitivity scenarios within the MPR corridor. The supply shock associated with the new tariffs and the impacts of trade diversions on the local economy could be different from the central scenario, in particular the reaction of the prices of products imported by Chile.

As aforesaid, the risks surrounding the global scenario are high in the current context, with potentially significant deviations. The complexity of the external geopolitical scenario —a mixture of political, economic, and military conflicts— does not allow to rule out more disruptive episodes. In fact, what happened in the Middle East at the close of this IPoM is an example of the relevance of factors that in the past were considered less likely. At the moment, its scope, development and potential impacts on the global and local economies are unknown, hence the need to monitor it closely. The Chilean economy is not immune to international events. However, it has the capacity to mitigate the impact of new shocks, including a monetary policy that has room for action should more substantial adjustments be necessary for inflation to converge to the target.

FIGURE II.9 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:

Exposure of Chilean exports to the trade conflict

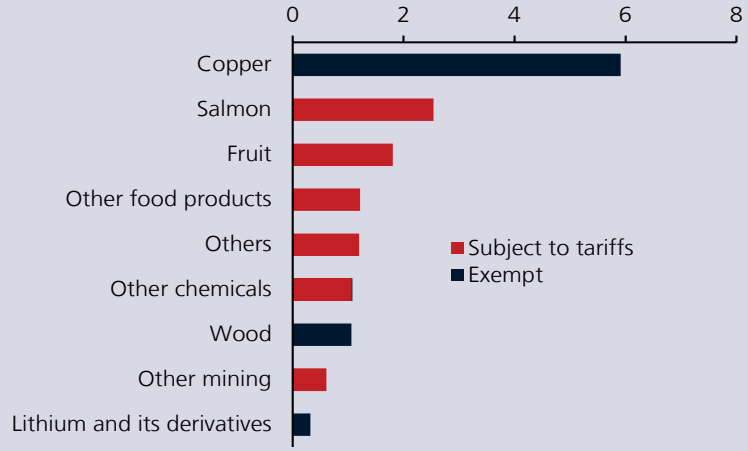
One channel through which the heightened trade tensions and the imposed tariffs may affect Chilean activity is trade. On the one hand, tariffs could affect the incentives of Chilean firms to export to the United States and the willingness of U.S. households and firms to purchase Chilean products. On the other hand, trade tensions and increased uncertainty would reduce global growth and with it, external demand for Chilean goods.

For Chile, the imposition of a 10% tariff on a fraction of the products exported to the United States was announced. This tariff is at the lower limit of the U.S. government's announcements. Regarding the growth of Chile's trading partners, the central scenario of this and the last IPoM incorporated a downward revision as a result of the trade conflict. This box analyzes the potential impact on Chilean exports derived from both effects.

Exports' recent evolution and exposure

The United States is one of Chile's largest trading partners, second only to China. In 2024, shipments to this country represented 16% of total exports and 5% of GDP. The main products exported to United States correspond to mining (41%) and foods (35%), with fruit and salmon exports standing out among the latter. The remaining 25% is divided between the timber and forestry industry, the chemical industry and other industrial branches. The 10% tariff affects slightly more than half of all shipments to this country. The announcement exempted some products, such as copper, lithium and by-products, and timber[1]/. Thus, the tariff affects just over 8% of total exports, equivalent to 2.5% of GDP (Figure II.10).

FIGURE II.10
Exports to the United States subject to and exempt from the 10% tariff (*)
(percentage of total exports in U.S. dollars in 2024)



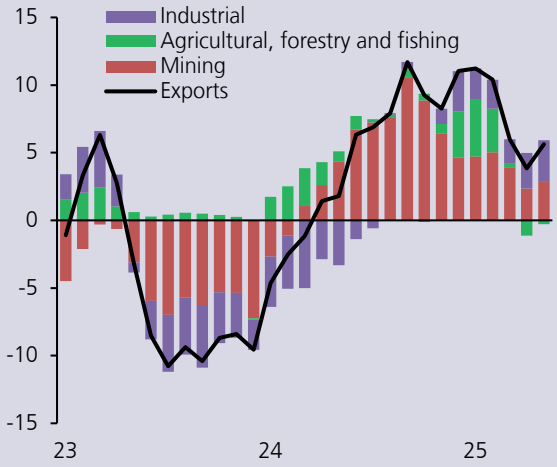
(*) Others includes agricultural and forestry products excluding fruit, wine, and metal products. Other chemicals includes a small exempt fraction corresponding to pharmaceutical products.
Source: Central Bank of Chile.

[1]/ For details on exempted products, see the Executive Order of April 2, 2025, Appendix II.

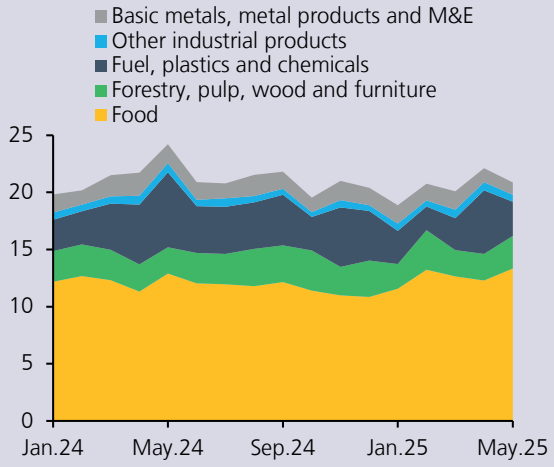
The information available so far suggests that Chilean exports do not exhibit significant changes with respect to the trends prior to the outbreak of the conflict. According to National Accounts data, real exports of goods grew by around 5% per year in 2024 and rose to around 10% annually in the first quarter of 2025, with all groupings showing high growth. Customs data for April and May suggest that, in general, this dynamism would have been maintained, with nominal growth rates remaining high. The exception is agricultural and livestock exports, whose seasonality is concentrated in the summer season, with a smaller impact on the rest of the year (Figure II.11a). In industrial exports, there were no significant changes in shipments to the United States (Figure II.11b).

FIGURE II.11

(a) Total exports in U.S. dollars (1)
(annual change and contributions, percentage, 3-month moving average)



(b) Export of industrial products to the United States (2)
(percentage of total)



(1) Data up to May. (2) Amounts in U.S. dollars. Breakdown generated from Customs microdata, identifying the applicable tariffs for each product category. The ratio considers exports of each category to the U.S. relative to total industrial shipments worldwide.
Sources: National Customs Service and Central Bank of Chile.

Expected impact on exports due to tariffs and slower growth of trading partners.

It can be expected that the tariffs will affect both the incentives of Chilean companies to export to the United States and of U.S. households and companies to buy Chilean products, which would cause a drop in exports to that country. The magnitude of this fall depends on multiple factors, which can be summarized in the supply elasticity of Chilean exports —how much the quantity exported varies in response to a variation in the actual price received by companies— and the demand elasticity of U.S. imports— the variation in the quantities imported in response to a variation in the price effectively paid by consumers. In this case, tariffs imposed by the United States on other economies are also relevant. In turn, the Chilean firms could respond to the tariffs by redirecting shipments to other destinations, including the local market, which would mitigate the negative impact of the tariffs on domestic production.

To quantify this impact, Briones *et al.* (2025) perform panel regressions with micro-data from Chilean Customs at the firm-product level. The results suggest that a 10% increase in tariffs generates a 6% drop in exports (quantities) to this destination, an effect that is reached after one year. However, this effect is offset by a redirection of shipments to other destinations and an increase in local sales[2]/. Overall, considering the percentage of products subject to tariffs and the estimated elasticities, the impact of the tariff increase on total exports would be limited, the equivalent to 0.1pp of GDP, and would be concentrated in 2026 (Table II.5).

TABLE II.5
Effect of a 10% increase in tariffs on local GDP (*)
(percentage points of GDP)

	Response to the current shock
Lower exports to the U.S.	-0.2
Higher exports to other destinations and increased sales in the local market	+0.1

(*) Effect calculated based on elasticities estimated from panel regressions using Chilean firm–product level data, the percentage of exports subject to tariffs, and the relative importance of domestic sales versus exports.
Source: Briones *et al.* (2025).

These estimates present degrees of uncertainty due to differences between tariff changes during the period considered for these estimates and the current event. First, in the sample considered, most of the tariffs are adjusted downward. If there are asymmetric effects of tariff increases and decreases, the effect on exports could be different from the one presented here. This would also be the case if the effect on exports is non-linear in the magnitude of the tariff change.

Second, the estimates are based on episodes where the tariff change applies to a single country. In the current episode, the imposition of tariffs on Chile is simultaneous with other countries. In fact, by receiving the lower bound of the tariffs imposed by the United States, the relative position with respect to other exporters of similar products could even favor Chilean firms, mitigating the estimated effects. Third, the current announcement of tariffs has taken place in a context of high uncertainty, making it difficult for exporters and importers to anticipate their persistence. In turn, the redirection of trade to new markets could be hindered by non-tariff barriers or the incentive of firms from other countries to enter these markets.

The estimates of Briones *et al.* (2025) talso allow calculating the sensitivity of Chilean exports to changes in external demand. According to these estimates, a 1% drop in the growth of trading partners has an equivalent impact (-0.9%) on Chilean exports, a result similar to that of previous studies[3]/. Given that the expected lower growth of trading partners affects a higher percentage of the export basket relative to the tariffs imposed on Chilean products by the United States, the effect on exports via lower external demand can be expected to be greater than that of the tariffs. In the central scenario of this IPoM, compared to that of December, a reduction of 0.8pp of cumulative trading partner GDP in 2025-2027 is considered due to the trade war, which would imply a cumulative drop in exports equivalent to 0.2pp of national GDP.

Conclusions

Based on the evidence presented in this box, the central scenario of this Report incorporates a limited impact of the increase in trade tensions. However, there are risks of further deterioration if the trade conflict and/or its effect on world growth intensifies, since the main transmission channel is linked to the evolution of world demand.

[2]/ A number of international papers (Amiti *et al.*, 2019; Fajgelbaum y Khandelwal, 2020; Yu *et al.* , 2023; Benguria y Saffie, 2024) find similar results to Briones *et al.* (2025).

[3]/ See Fornero *et al.* (2020).

BOX II.2:

Effects of trade tensions on global prices

The tariff changes imposed by the United States have raised its average tariff to an 80-year highest. Given the magnitude and asymmetry of these measures, significant and heterogeneous effects on trade flows and international goods prices are to be expected. This Box provides expected orders of magnitude for these effects, including an estimate for local prices in different economies, Chile among them.

Conceptual framework

The analysis is based on a multi-country, multi-sector multilateral international trade model developed in Pustilnik *et al.*, 2025. Three main channels through which tariffs affect trade flows and world prices are considered:

a. Direct channel: Tariffs imposed by the United States increase their domestic prices due to higher import prices.

b. Global competition: Affected countries redirect their exports to destinations with fewer restrictions. This reduces local prices in those destinations. In this environment of increased competition outside the United States, some countries less affected by tariffs could face increased demand from the United States, offsetting the disinflationary effect of increased supply.

c. Local supply: Part of the production not sold to the United States goes to local markets, reducing their prices.

The relevance of each channel depends on the magnitude of tariffs, the supply and demand elasticities of each product in each country, and the magnitude of bilateral trade flows prior to tariffs. Pustilnik *et al.*, 2025 consider elasticities estimated in the academic literature[1]/, different tariff structures by product —consistent with the various announcements made by the United States— and the trade flows implicit in the OECD's global input-output tables[2]/. The central scenario considers tariffs implemented by the United States until June 3rd, including 10% for all countries, 30% for China, 25% to Canada and Mexico for goods outside the USMCA, 25% to automobiles, and 25% to aluminum and steel[3]/.

Results

Estimates show that tariffs raise import prices (after tariffs) in the United States, while they generate falls in the rest of the economies, in line with the greater global supply of goods (Figure II.12). Considering the current tariff scenario, Chile stands out among the countries with the greatest expected impact on their import prices, with an average price reduction of around 0.7%. This is largely explained by the high share of China in the Chilean import basket. The

[1]/ Elasticities of demand and substitution taken from Fajgelbaum *et al.* (2020) and Fontagné *et al.* (2022). Supply elasticities are taken from Romalis (2007).

[2]/ In line with Kalemli-Özcan *et al.* (2025) and Rodríguez-Clare *et al.* (2025), the Inter-Country Input-Output tables (OECD, 2023) are used. While there are data up to 2020, 2019 data are used to avoid distortions caused during Covid-19.

[3]/ Two alternative scenarios are also considered: i) The April 2nd scenario incorporates the reciprocal tariffs announced that day and those announced earlier, ii) The pause scenario reflects the 90-day suspension announced on April 9th, along with the new additional 125% tariff to China (totaling 145%).

impact on local prices operates mainly through the share of imports in inputs and final goods, with estimated drops in the local price level in the order of 0.3% (Figure II.13). For the purposes of the central scenario, this translates, all else constant, into a reduction in inflation of 0.3 percentage points cumulatively over the projection horizon[4]/.

While in Chile the impact on prices occurs mainly via greater global supply (channel b—global competition), in other countries with similar total impacts, such as Mexico and Canada, the main effect comes from the redirection of their exports to their local markets (channel c—local supply) (Figure II.14).

It should be noted that these figures should be interpreted as an initial pressure on prices and not as an estimate of the impact of tariffs on inflation in the different countries. The final effects on inflation will depend on general equilibrium mechanisms, such as changes in aggregate demand, exchange rate movements, changes in corporate margins and monetary policy reactions, which are not considered in these estimates. Other effects not considered that could moderate the results are possible disruptions in global value chains, difficulties in redirecting exports and lost efficiency in production and resource allocation. Indeed, to the extent that trade conflicts spill over into bilateral relations beyond the U.S. with its trading partners —for example, through tariffs between China and its Asian trading partners, tradable goods production chains could be affected, decreasing production efficiency and exerting upward pressure on prices over longer time horizons.

Conclusions

A likely consequence of the ongoing trade tensions is that, in the short term, they generate upward price pressures in the United States and downward pressures in the rest of the world. For Chile, in the central scenario of this IPoM, these pressures are quantified as a 0.3 percentage point drop in the CPI accumulated over the projection horizon. However, the uncertainty associated with these estimates is high, so sensitivity scenarios where the effects are larger and smaller are considered. Both scenarios describe interest rate paths within the MPR corridor.

[4]/ The model does not have a dynamic structure. The estimated effects are those of the new equilibrium, after tariffs.

FIGURE II.12
Change in import price index (1)
(percent)

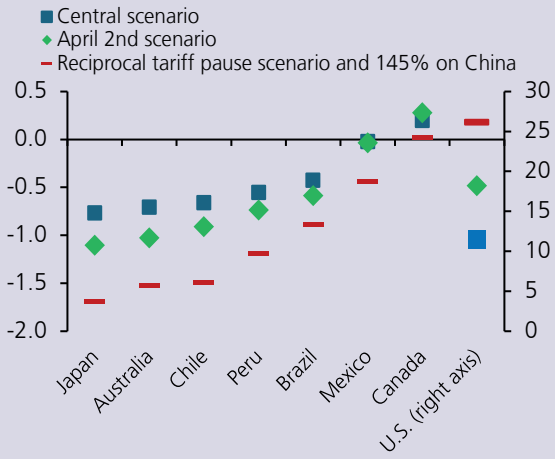
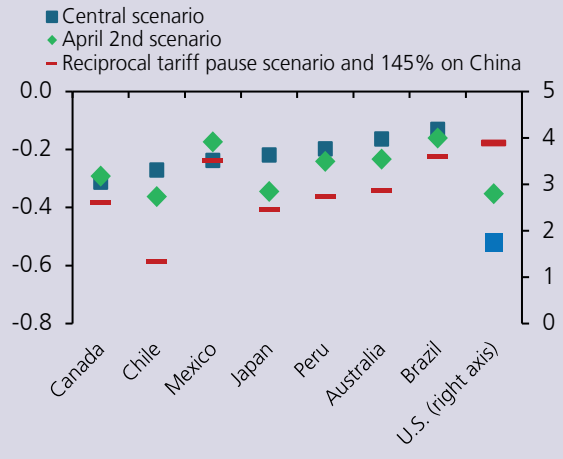
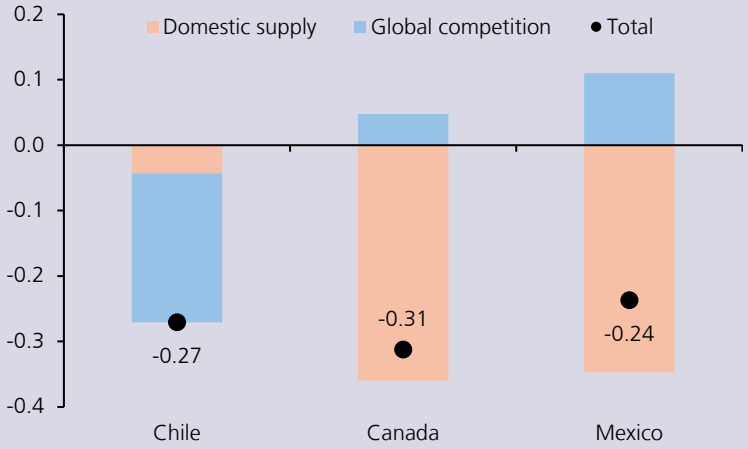


FIGURE II.13
Change in consumer price index (2)
(percent)



(1) Average change in the price of the import basket, according to the scenarios considered. A partial equilibrium multilateral trade model is used, with bilateral data and high sectoral disaggregation (ISIC Rev.4). The model is calibrated with shares in trade flows, and elasticities of supply and demand taken from the literature, and the tariffs announced by country and product. The central scenario considers tariffs implemented by the United States through June 3, 2025, including 10% for all countries, 30% for China, 25% for Canada and Mexico for goods outside the USMCA, 25% for autos, and 25% for aluminum and steel. The April 2 scenario incorporates all reciprocal tariffs announced that day and those announced previously, and the pause scenario reflects the 90-day suspension announced on April 9, along with the new additional 125% tariff on China (totaling 145%).
(2) Average change in the CPI in the scenarios considered.
Source: Pustilnik *et al.* (2025).

FIGURE II.14
Decomposition of the effects of tariffs on the CPI (*)
(percent)



(*) Decomposition of the expected impact on the CPI under the central scenario (see note to Figure II.12). The decomposition is obtained by sequentially removing the different channels from the model. Domestic supply reflects the redirection of exports to the domestic market of the countries affected by tariffs. International competition corresponds to the additional impact when these countries redirect their supply and demand to other markets. The sum of the components corresponds to the total effect. For further details of the model, see Pustilnik *et al.* (2025).
Source: Pustilnik *et al.* (2025).

BOX II.3:

Global uncertainty and investment

In recent months there has been a significant increase in global uncertainty. Usually, this type of events negatively affects investment (Bloom, 2009), with impacts that can be more pronounced in emerging and open economies such as Chile (Carriere-Swallow y Céspedes, 2013), especially when accompanied by major financial disruptions.

The central scenario of this IPoM assumes an improvement in investment plans over the projection horizon, despite increased global uncertainty. This result is based on several factors. The investment committed in the cadastres has increased significantly, especially in the mining and energy sectors, which respond to longer-term needs (Box I.2); the increase in financial volatility was significant, but temporary (Figure II.15); and local financial conditions have evolved favorably compared to what would be expected in an episode of risk aversion such as the current one (Box I.1).

This box shows exercises that quantify the negative impact of global economic uncertainty shocks on investment, both aggregate and for different types of firms, based on past episodes. This is a way of assessing the effect of potential alternative scenarios in which the increase in uncertainty affects investment.

Recent evolution of global economic uncertainty and how it relates to investment

The VIX is an index that measures the volatility of financial asset prices and is widely used as a measure of global financial and economic uncertainty. During April, it increased by approximately two standard deviations above its historical average, with a rapid reversal in May[1]/ (Figure II.15).

Increases in the VIX are usually associated with greater economic and financial uncertainty and increased demand for safe financial assets (flight to quality). A decrease in risk appetite contracts the global supply of liquidity, which can lead to a domestic contraction of credit that negatively affects investment. At the same time, in scenarios of high uncertainty, the firms may contract their investment spending due to the adoption of "wait and see" strategies.

Andalaft *et al.* (2025) estimate the impact of previous episodes of rising global uncertainty on local investment. The results suggest that an increase in global uncertainty tends to significantly depress investment for two quarters, with a recovery being observed around nine months after the shock[2]/ (Figure II.16a). These results change significantly when the increase in global uncertainty is not accompanied by an increase in local uncertainty or a deterioration in financial conditions. In that case, compatible with what is happening today, there is no negative impact (Figure II.16b).

[1]/ Other measures of global economic uncertainty also showed an increase, such as the economic policy uncertainty index (EPU) or the trade policy uncertainty index (TPU). These, while falling in May from the levels reached in April, remain elevated.

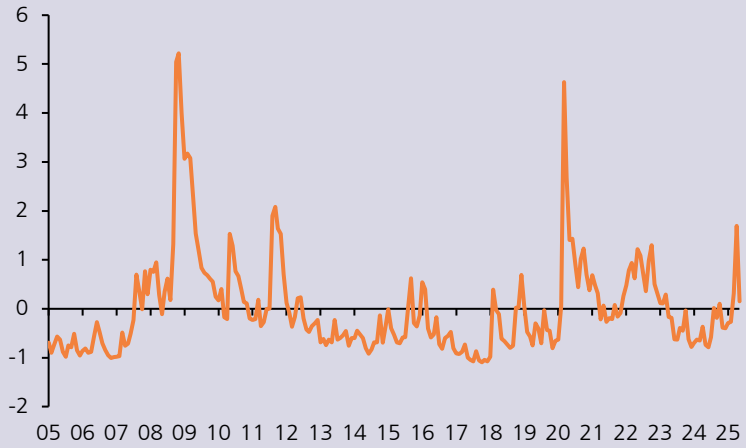
[2]/ Given a shock of 1 standard deviation, the annual investment decline is approximately 1.2%.

In any case, in the face of an uncertainty shock that reduces investment, there is a high degree of heterogeneity in the responses of firms. Larger companies reduce their investment to a greater extent than small and medium-sized ones (Figure II.17a). This may be because big companies depend more on external financing (Acosta-Henao *et al.*, 2025) and on external demand for their products, and both channels are affected by global uncertainty[3]/. Finally, the reduction in investment is especially persistent for indebted and non-performing firms[4]/ (Figure II.17b).

Conclusions

The central projection scenario assumes that the increase in global financial uncertainty will have no substantial impact on local investment. However, there are sensitivity scenarios where the upsurge in global trade tensions may result in a deterioration of financial conditions for emerging economies, including Chile. In such a scenario, local investment could be affected, especially for big and indebted companies.

FIGURE II.15
Volatility Index, VIX
(standardized index)



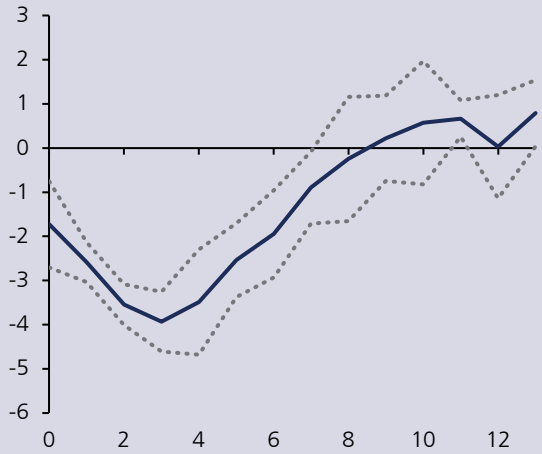
Source: Chicago Board Options Exchange and Statistical Database of the Central Bank of Chile.

[3]/ Andalaft *et al.* (2025) show that the investment of exporting firms reacts more strongly to VIX shocks than non-exporting firms.

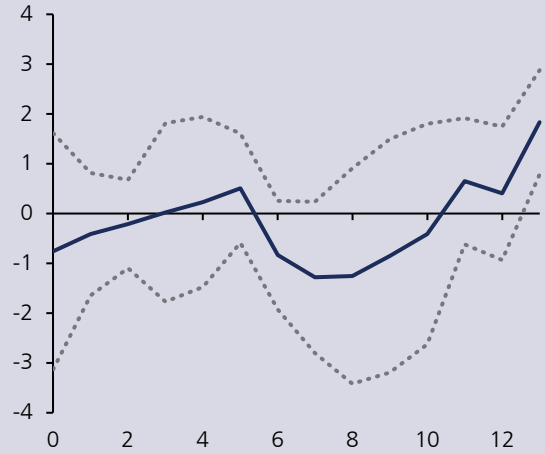
[4]/ Large companies are those with sales greater than 1 million UF per year. Indebted and delinquent companies are those with a level of debt above the median for their sector and with at least five days of delinquency in the local banking system.

FIGURE II.16 EFFECT OF AN INCREASE IN GLOBAL FINANCIAL UNCERTAINTY ON AGGREGATE INVESTMENT (*)

(a) VIX increase on investment
(percent)



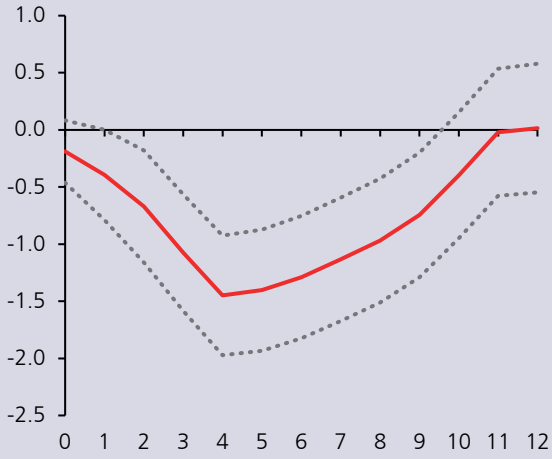
(b) VIX increase on investment conditioned by observing low local uncertainty
(percent)



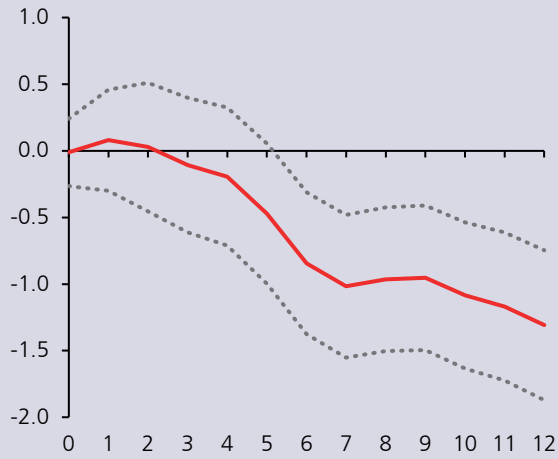
(*) Panel (a) shows the dynamic response of investment using microdata to a one standard deviation increase in the VIX in month zero. Panel (b) shows the response of investment conditional on local uncertainty having the opposite direction to external uncertainty. These results are obtained from monthly Local Projection regressions for the period 2017m1–2025m2. The solid line contains the beta estimate, and the dotted lines the 95% confidence intervals.
Source: Andalaft *et al.* (2025).

FIGURE II.17 HETEROGENEITY IN THE RESPONSE OF INVESTMENT TO UNCERTAINTY SHOCKS (*)

(a) Differential effect for large firms
(percent)



(b) Differential effect for indebted and delinquent firms
(percent)



(*) The figures show the differential effect of an uncertainty shock (a one standard deviation increase in the VIX) on a corporate investment indicator using microdata for large firms compared to small and medium-sized firms (Panel a), and for indebted and delinquent firms compared to the rest (Panel b). Large companies are those with annual sales exceeding UF 1 million. Indebted and delinquent firms are those with a debt level above the median for their sector and at least five days of delinquency in the local banking system. The solid line is the beta estimate and the dotted lines are the 95% confidence intervals.
Source: Andalaft *et al.* (2025).

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