MONETARY POLICY REPORT

SEPTEMBER 2025

10 pesos, Central Bank of Chile, 1975.

In June 1975, Chile's changed its national currency denomination from the former escudo to the new peso at a rate of 1,000 escudos to one peso. This change was part of a series of profound reforms to fiscal and monetary policy, intended to make structural adjustments to control inflation. The red 10-peso note was one of the first to circulate after the reform in late 1975. It featured on the front Bernardo O'Higgins, one of the most recurring figures in the national currency. On the back is Pedro Subercaseaux's painting "Battle of Rancagua," which describes the defeat of the independence army by the royalist forces. This series of banknotes would be the last to incorporate works of Chilean painting. Because of the need to increase the low-denomination money supply, the 5-, 10-, and 50- peso bancknotes were quickly replaced by coins that are still in circulation today. Eventually, the 100 and 500 peso bills suffered the same fate.

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

Monetary Policy Report

September 2025

The Central Bank of Chile's Monetary Policy

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

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

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

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

Communication, transparency and the Monetary Policy Report

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

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

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

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

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*/ For the central scenario construction purposes, the statistical cut-off date is 3 September. This document was originally written in Spanish. In case of discrepancy or difference in interpretation, the Spanish version prevails.

SUMMARY

Headline inflation has evolved in line with forecasts and has continued to fall, along with inflation expectations which remain aligned with the 3% target for the next two years. However, the core inflation (which excludes volatile items) has exceeded expectations, influenced by stronger domestic spending and high cost pressures. Compared to the projections in the June Monetary Policy Report (IPoM), both consumption and investment have performed better in recent months, while the impact of the temporary factors that boosted activity early this year has dissipated, as was indicated at the time. Externally, the market outlook for the Federal Reserve's (Fed) monetary policy has become more expansionary, which has favored the evolution of short-term financial conditions. In any case, the risks of an abrupt deterioration in these conditions persist. In the central scenario, projections for domestic demand growth are increasing, especially for this year. Upward adjustments are also being made to GDP, although by a lower magnitude. Regarding inflation, the core component is estimated to reach higher levels than those projected in June between the end of this year and the first part of the next year. Headline inflation is expected to converge to 3% during the third quarter of 2026. The Board will evaluate the next movements of the Monetary Policy Rate (MPR) being attentive to the evolution of the macroeconomic scenario and its implications for inflation convergence. In the current conditions, the risk of greater inflation persistence calls for gathering more information before continuing the process of leading the MPR to converge to its neutral range.

Headline inflation has evolved as forecast in the June IPoM's central scenario. The annual change of the total CPI was 4% in August (4.4% in May), with two-year inflation expectations still aligned with the 3% target.

However, this trajectory combines mixed results from its components, most notably core inflation being above expectations. The latter reached 3.9% annually in August (3.6% in May), with greater increases recorded in both goods and services.

Core inflation has risen in the context of stronger domestic spending, high wage pressures, and a weaker exchange rate. All these factors raise the projection for this inflation measurement between the end of this year and the first part of the next year.

Activity has behaved as anticipated, which ratifies the transitory nature of the factors that boosted it at the beginning of the year. Thus, in the second quarter, total GDP grew by 0.4% quarterly in its seasonally adjusted series (0.8% in the first quarter).

Nevertheless, domestic demand has performed better than expected. It is worth noting the acceleration of investment in the second quarter. This was particularly noticeable in the machinery & equipment component of gross fixed capital formation (GFCF), whose dynamism has reportedly continued so far in the third quarter, according to figures for capital goods imports. The construction & other works component of GFCF has continued to recover gradually. The upturn in investment has been largely supported by the push for large-scale projects, coupled with somewhat more favorable financial conditions and improved business confidence compared to previous years.

Private consumption also grew more than expected, but its difference with the June projection was smaller than that of investment. This advance is occurring alongside a favorable evolution of some of its fundamentals. Thus, it can be seen that labor income (i.e., the real wage bill) has continued to rise, albeit at a slower pace than in previous months. Its composition reveals a contrast between low job creation and a sharp increase in wages (Box I.3). The financial situation of households has improved compared to previous years, due to both lower interest rates and a reduced financial burden. In any case, consumer bank loans remain sluggish. Finally, consumer expectations are also showing a gradual upturn.

In this context, the current account deficit accumulated over the last twelve months went from 1.8% to 2,2% of GDP between the first and second quarters of this year. This was influenced by a stronger growth in imports of goods due to the increase in domestic spending —which has focused on its tradable component— in addition to a slowdown in exports in recent months.

The external scenario continues to be marked by several sources of uncertainty. Although the global impact of tariffs has been limited so far, their evolution is uncertain and the economic effects are still estimated to be negative. Beyond the agreements reached, the average U.S. tariff is slightly above 15%, its highest since the 1940s. Added to this is the concern generated by institutional tensions in that country. Meanwhile, announcements of a significant increase in defense spending, especially in NATO countries, have contributed, on the one hand, to marginally raising growth projections in some economies and, on the other, to increasing fiscal risks (Box I.1).

The U.S. government's announced tariffs have affected the timing of trade flows and activity in major economies. The anticipated imports prior to the actual application of tariffs contributed to the slowdown in the United States in the first half of the year. This has been mirrored by a greater boost to exports in China and the Eurozone, which recorded better-than-expected results and were also driven by higher fiscal spending. These advances in trade between countries have made it difficult to gauge the impact that the trade conflict will have on the global economy in the quarters ahead.

As for global inflation, there are early signs of the impact of the tariff policy, especially in the United States. The latest U.S. CPI data showed an increase in inflation for the goods most exposed to tariffs, although this was offset by falls in the prices of other items in the basket. In other countries, no repercussions have been observed, although several of them anticipate that trade diversions could cause some downward pressure on inflation.

In the international financial markets, short-term interest rates have fallen amid expectations that the Fed will resume its rate cuts shortly. However, upside risks to inflation in the United States maintain the uncertainty regarding the future dynamics of this process. Tariff adjustments, the prospect of a larger fiscal deficit, and rising labor costs in the American economy are raising concerns about the future evolution of inflation, as evidenced by short-term inflation expectations (Box I.2). In such context, the yield curve of U.S. interest rates has been steepening.

Compared with the statistical cut-off of the last IPoM, stock markets have seen widespread highs, including in Chile (IPSA), while currencies exhibit mixed movements. In any case, the dollar remains depreciated globally. The Chilean peso has accumulated a depreciation of around 3% against the dollar and around 3.5% compared to a broader basket of currencies (MER).

Projections

The main adjustments to the central scenario are at the local level, with changes in the projections for domestic demand and core inflation being most noteworthy. In both cases, these revisions are influenced by the higher starting point left by recent months' figures. The spending trajectory is revised upward, especially for 2025. This, coupled with the influence of a number of cost factors, will lead to high inflationary pressures in the coming quarters.

Thus, the outlook for GFCF is revised upward once more. The latest survey by the Capital Goods Corporation again raised the investment amounts for major projects planned for 2025-2028, especially in energy. This couples with the already mentioned dynamism of capital goods imports. In the central scenario, GFCF would show variation rates of 5.5% in 2025, 4.3% in 2026, and 3.1% in 2027 (3.7, 3.6, and 3.3% in June, respectively).

The foreseen expansion of private consumption is also raised, although to a lesser extent than the GFCF. For this year, this is largely explained by the improved actual results for the second quarter. Going forward, the pace of consumption growth is not expected to differ significantly from the June forecast, considering the mixed evolution of its fundamentals. Private consumption is expected to grow by 2.7% in 2025, 2.3% in 2026, and 2.1% in 2027, respectively (2.2% this year and 2% the next two in the June IPoM).

Consistently with the higher expenditure on tradable goods, a larger current account deficit is foreseen for the three-year period 2025-2027. As a share of GDP, this deficit is expected to average around 2.5% in said period (1.9% in the last IPoM).

For activity, GDP growth ranges are revised moderately. For 2025, the lower bound of the range forecast in June is raised to 2.25%-2.75%. For 2026, it is adjusted up to 1.75%-2.75% (1.5%-2.5% in June) and is maintained at 1.5%-2.5% for 2027.

On the fiscal front, for 2025 the central scenario incorporates an increase in spending in accordance with the latest Public Finance Report (IFP). Afterwards, committed expenditures are considered.

Between late 2025 and the first part of 2026, core inflation would exceed the June forecast. This estimate factors in the greater effective variation of recent months, the effect of higher private spending, still high wage pressures, and a more depreciated real exchange rate (RER) than forecast in the previous IPoM. During 2026, annual inflation minus volatile items would decline toward 3%, in a scenario where the activity gap would close, private consumption would grow in line with the economy's trend, and inflation persistence would behave according to usual patterns. This also considers the assumption that the RER will appreciate over the projection horizon.

In this scenario, the convergence of headline inflation to the 3% target would occur during the third quarter of 2026. From then onwards, it would hover around this figure.

For the external scenario, the growth prospects of trading partners remain slightly above 2.5% on average for the period 2025-2027. Although negative effects from the trade conflict are still expected, the evolution of financial conditions in the short term, improved expectations among different agents, and higher fiscal spending expected in a number of economies would sustain global activity. For the terms of trade, the projection of US$4.3 for a pound of copper in the period 2025-2027 remains unchanged. For a barrel of oil (average WTI-Brent price), the estimate of close to US$65 on average for the same period is maintained.

Monetary policy

In the central scenario, the foreseen path of headline inflation is similar to that of the previous report, but with core inflation expected to be higher over the next twelve months than what was projected in June. Since this CPI component tends to be more persistent, this emphasizes the need for close monitoring of its evolution and its fundamentals.

The Board will evaluate the next movements of the MPR being attentive to the evolution of the macroeconomic scenario and its implications for inflation convergence. In the current conditions, the risk of greater inflation persistence calls for gathering more information before continuing the process of leading the MPR to converge to its neutral range.

The sensitivity scenario for the upper bound of the MPR corridor is linked to the local economy, particularly the performance of spending. A situation in which activity and domestic demand were more dynamic than expected would reinforce agents' expectations and give an additional boost to spending, in a context in which nominal wages continue to grow above historical averages. All of this would result in increased inflationary pressures.

The lower bound depicts a situation in which the external outlook worsens, with negative effects on the global and local economies. An escalation of trade tensions or a deterioration in global financial conditions cannot be ruled out, with interest rate hikes, stock market declines, and currency depreciation in emerging economies. All of this would negatively affect economic expectations and domestic spending, with a significant reduction in inflationary pressures.

The risk scenarios are still associated with external conditions and cover several sources of tension. The reversal of global financial conditions continues to pose a significant risk. Although indicators of global uncertainty have fallen from the highs of previous months, they remain above the levels of the last decade, and abrupt adjustments of risk premiums by financial markets cannot be ruled out. This could be exacerbated by the deterioration of the fiscal situation in several major economies and fragile global geopolitical issues, including, among other factors, the ongoing trade disputes and the persistence of conflicts and hotspots of military tension.

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

	2023	2024	2025 (f)		2026 (f)		2027 (f)	
			Jun.25 IPoM	Sep.25 IPoM	Jun.25 IPoM	Sep.25 IPoM	Jun.25 IPoM	Sep.25 IPoM
Average CPI	7.3	3.9	4.3	4.4	3.1	3.2	3.0	3.0
December CPI	3.4	4.5	3.7	4.0	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	3.5	3.8	3.1	3.5	3.0	3.1
December core CPI	4.7	4.3	3.1	3.7	3.0	3.1	3.0	3.0
Core CPI around 2 years (3)							3.0	3.1

(1) Core inflation is measured using the CPI without volatiles. (2) Figures consider the 2023 CPI reference basket and the splice made by the Central Bank of Chile. (3) For June 2025 IPoM corresponds to inflation forecast for the second quarter of 2027, for September 2025 IPoM to inflation forecast for the third 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)	
			Jun.25 IPoM	Sep.25 IPoM	Jun.25 IPoM	Sep.25 IPoM	Jun.25 IPoM	Sep.25 IPoM
	(annual change, percent)							
Terms of trade	1.9	4.4	2.9	3.3	2.1	1.6	1.1	1.1
Trading partners	3.5	3.3	2.6	2.8	2.4	2.4	2.7	2.8
World GDP at PPP	3.7	3.4	2.6	2.8	2.6	2.6	3.1	3.0
Developed GDP at PPP	1.7	1.7	1.1	1.3	1.1	1.2	1.8	1.7
Emerging GDP at PPP	4.9	4.5	3.5	3.7	3.4	3.3	3.8	3.8
	(levels)							
LME copper price (US$cent/pound)	385	415	430	430	430	430	430	430
Oil price, average WTI-Brent (US$/barrel)	80	78	66	68	63	64	64	64

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

TABLE 3: INTERNAL SCENARIO
(annual change, percent)

	2023	2024	2025 (f)		2026 (f)		2027 (f)	
			Jun.25 IPoM	Sep.25 IPoM	Jun.25 IPoM	Sep.25 IPoM	Jun.25 IPoM	Sep.25 IPoM
GDP	0.5	2.6	2.0 - 2.75	2.25 - 2.75	1.5 - 2.5	1.75 - 2.75	1.5 - 2.5	1.5 - 2.5
Domestic demand	-3.7	1.3	3.2	4.3	2.7	2.6	2.4	2.3
Domestic demand (w/o inventory)	-2.7	0.7	2.9	3.6	2.5	2.8	2.5	2.6
Gross fixed capital form	-0.1	-1.4	3.7	5.5	3.6	4.3	3.3	3.1
Total consumption	-3.5	1.4	2.6	3.0	2.1	2.4	2.3	2.4
Private consumption	-4.9	1.0	2.2	2.7	2.0	2.3	2.0	2.1
Goods and services exports	0.1	6.6	5.1	4.6	1.8	1.8	2.7	2.9
Goods and services imports	-10.9	2.5	7.6	10.3	4.0	3.2	4.3	3.7
Current account (% of GDP)	-3.2	-1.5	-1.8	-2.6	-1.8	-2.4	-2.0	-2.4
Gross national saving (% of GDP)	20.2	21.8	22.2	21.7	22.7	22.2	22.7	22.2
Gross fixed capital formation (% of nominal GDP)	24.2	23.5	23.8	23.9	24.2	24.3	24.5	24.4

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

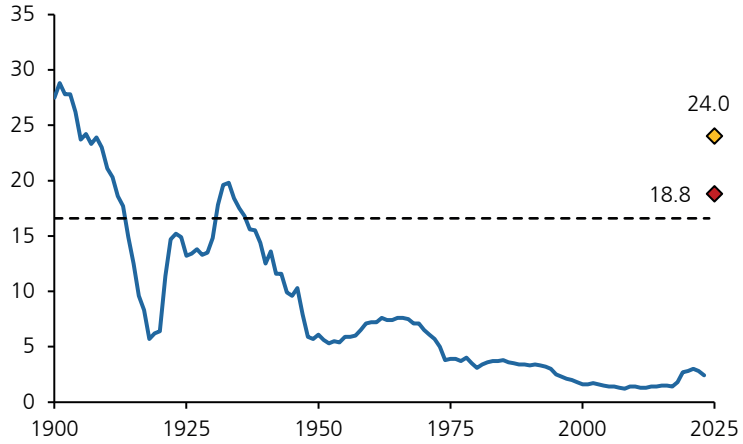
I. RECENT EVOLUTION OF THE MACROECONOMIC SCENARIO

The international outlook has evolved broadly in line with the June Monetary Policy Report (IPoM), with several sources of uncertainty remaining. So far, the aggregate impacts of the trade conflict on the world economy have been influenced by anticipatory effects, making it difficult to assess the consequences of higher tariffs on economic activity and inflation in different countries. Prospects of a more expansionary monetary policy by the Federal Reserve (Fed), together with lower risk aversion, have favored a rebound in international financial markets. Even so, factors that could translate into higher inflationary risks in the United States and a reversal of the recent trajectory of financial conditions remain. Locally, activity has performed in line with expectations, confirming the transitory nature of the factors that drove it at the beginning of the year. However, domestic demand performed better than foreseen in the previous IPoM, highlighting the acceleration of investment and higher growth in private consumption in the second quarter. Headline inflation has been in line with forecasts, although with differences among its components. The increase in non-volatile (core) inflation, which surpassed what was foreseen, stands out.

THE INTERNATIONAL SCENARIO

The world economy has evolved as predicted in the last IPoM, with significant sources of uncertainty still in force. U.S. trade policy continues to be a major focus of attention. Beyond the agreements frameworks reached with some of its counterparties, the average U.S. tariff is at its highest level in several decades (Figure I.1). Added to this is concern about institutional tensions in that country. At the same time, concern about high debt levels in the major developed economies and their impact on long-term rates has grown, amid an increase in actual and expected defense spending (Box I.1). All this, in a context in which some war tensions in the Middle East have moderated, while others remain.

FIGURE I.1 UNITED STATES AVERAGE TARIFF (1)
(percent)



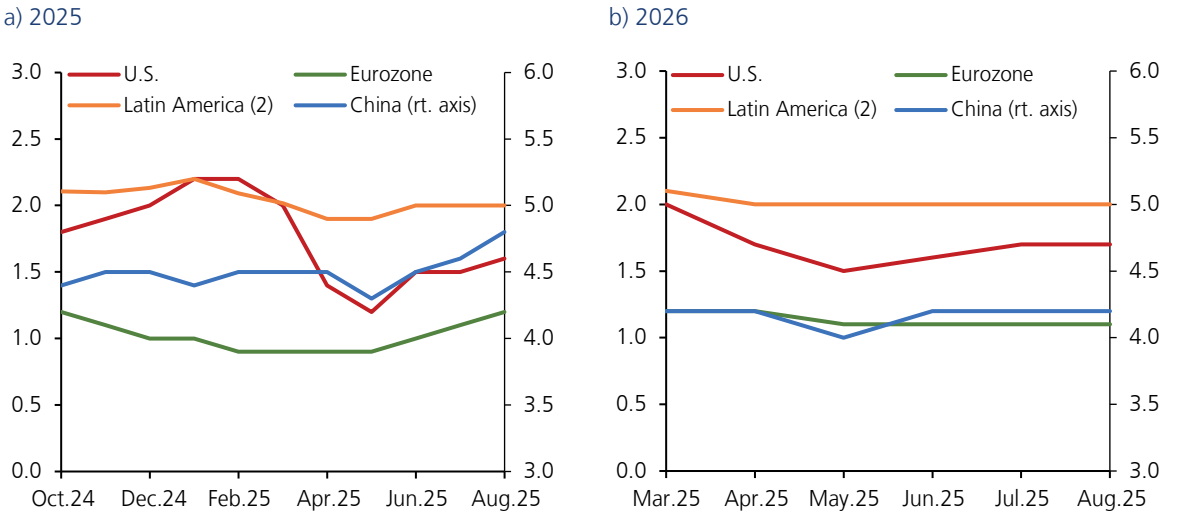
(1) The dashed line corresponds to the average tariff considered in the central scenario of the June 2025 IPoM. The yellow diamond corresponds to the average tariff after the announcements of 04/02/25. The red diamond corresponds to the average tariff as of 03/09/25 (statistical closing of this Report).
Sources: Central Bank of Chile, U.S. International Trade Commission and Tax Foundation.

So far this year, the tariff measures implemented by the US government have caused significant changes in global trade flows. The anticipated reaction to those measures led to an advance in imports into the United States, particularly visible in the early months of the year. In that economy, GDP slowed down during the first half of 2025. In addition, its domestic demand has accumulated some quarters of progressive slowdown compared to previous years. On the other hand, job creation has also declined, which could be attributed, among other things, to labor supply constraints caused by the immigration policies the United States has implemented in recent months.

As a counterpart to what happened in the United States, exports from China and the Eurozone showed significant dynamism in the first half of the year, which should moderate in the remainder of 2025. The better performance of these countries has also been influenced by greater fiscal stimulus, aimed at boosting household consumption in China and increasing defense spending in the Eurozone. In Latin America, after first-quarter activity exceeded expectations, most recent figures point to a slowdown, especially in Brazil's agricultural sector.

In this context, market expectations for global growth show no major changes compared to the statistical closing of the June IPoM (Figure I.2). In any case, US growth forecast for 2025 and 2026 is still below what was anticipated at the beginning of the year. In China and the Eurozone, some upturn in expectations for this year has been observed, related to the extension of the aforementioned fiscal stimulus packages.

FIGURE I.2 CONSENSUS FORECASTS: GLOBAL GROWTH PROJECTIONS (1)
(percent)

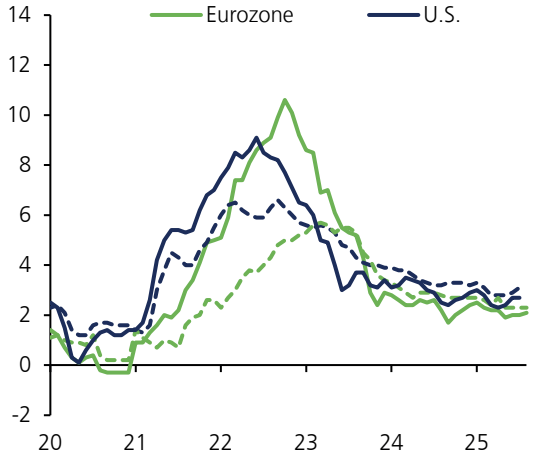


(1) The latest information available at the closing of this Report corresponds to August 2025. (2) Considers Brazil, Argentina, Peru, Colombia and Mexico. PPP-weighted growth, shares of each economy according to WEO (IMF).
Sources: Consensus Forecasts and IMF.

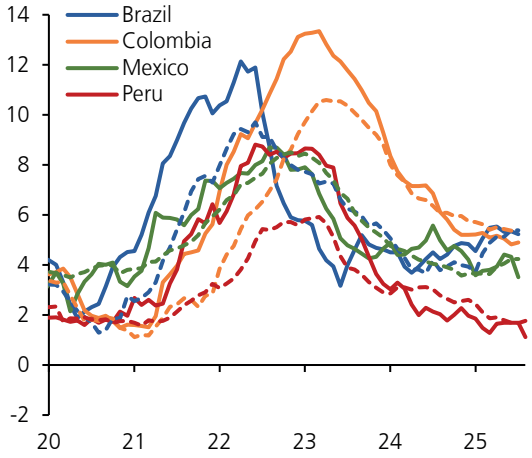
As for global inflation, no significant impact from the tariff policy has been observed so far (Figure I.3). In the United States, inflation for goods more exposed to tariffs has risen, although this has been offset by falls in not-so-exposed prices. In the Eurozone, inflation has hovered close to the target, with a services component continuing to show some persistence. In China, inflation remains low, especially when considering the producer price index. Finally, in Latin America, in general last inflation figures remain above target and, with the exception of Mexico—where it was lower than expected—, have not deviated from market forecasts.

FIGURE I.3 WORLD INFLATION (1) (2)
(annual change, percent)

a) Developed economies



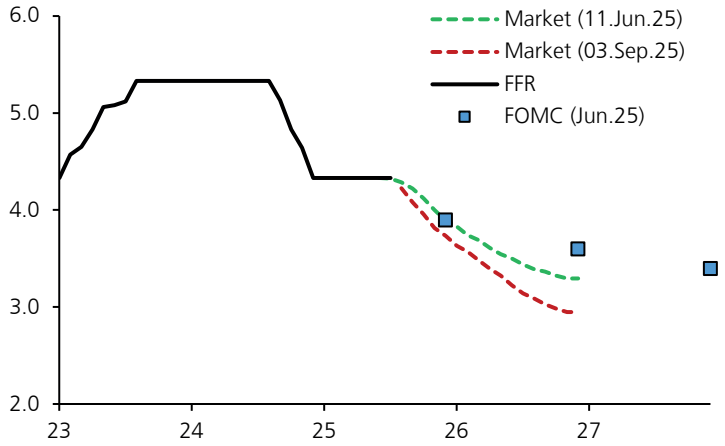
b) Latin America (3) (4)



(1) Dashed lines correspond to core inflation. For the Eurozone and Peru, the latest data corresponds to August; for the rest of the countries, it corresponds to July. (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.

Markets anticipate further cuts in the monetary policy rate in the United States (Figure I.4), and broadly similar outlooks to those reported in our latest IPoM for other countries. Thus, the possibility that Fed will resume interest rate cuts in the near future has been reinforced, particularly following statements by its chairman in Jackson Hole. In the Eurozone, the European Central Bank kept its rate unchanged, as expected. The Bank of England cut its rate by 25 basis points (bp). In Latin America, most central banks have kept their monetary policy rates unchanged, in line with market expectations, although both Brazil and Colombia have signaled a more contractionary stance going forward. Mexico, on the other hand, has continued to cut its benchmark rate. This reflects a process of inflationary convergence that maintains heterogeneity among countries.

FIGURE I.4 FED FUNDS RATE (1)
(percent)



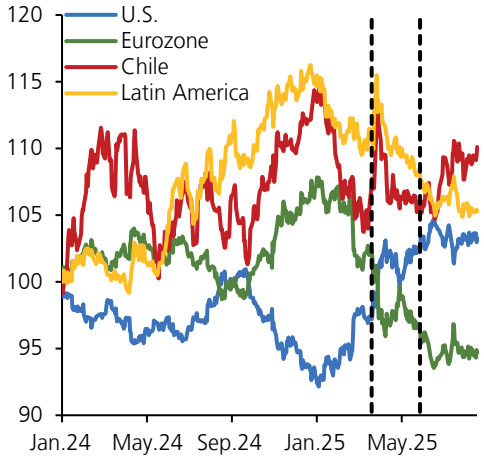
(1) FOMC projections correspond to the mid-range of the Fed funds rate presented in Jun.25; market projections are for the midrange of the Fed funds rate futures at the statistical closing of the June IPoM (11/06/25) and at the statistical closing of this IPoM (03/09/25).
Sources: U.S. Federal Reserve and Bloomberg.

The behavior that the market anticipates for the Fed, along with other factors, has had a positive impact on international financial conditions (Figure I.5). Since the June IPoM, short- and long-term interest rates have fallen, and stock markets have recovered. In the United States, the perception of risk regarding its assets has moderated since the last Report, with stock market results underpinned by optimism surrounding technology investments and a monetary policy that is perceived as less restrictive. In any case, the global dollar remains depreciated, at similar levels to those observed at the closing of the previous IPoM. In this scenario, other currencies have shown mixed variations.

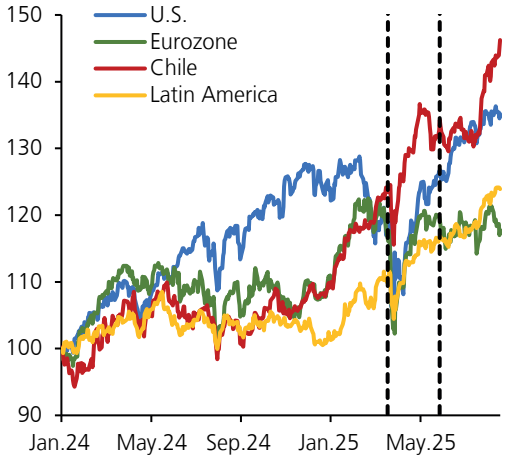
Broadly, movements in the local financial market have been in line with global developments. Long-term bond interest rates have declined, while short-term average interbank swap (SPC) rates remain stable with respect to the closing of the previous IPoM. The stock market (IPSA) has continued to rise, accumulating gains of around 9% since June, against a backdrop of improved external financial conditions and somewhat stronger local growth prospects. In contrast, the exchange rate has depreciated, standing at around 3% above the previous statistical closing.

FIGURE I.5 FINANCIAL CONDITIONS

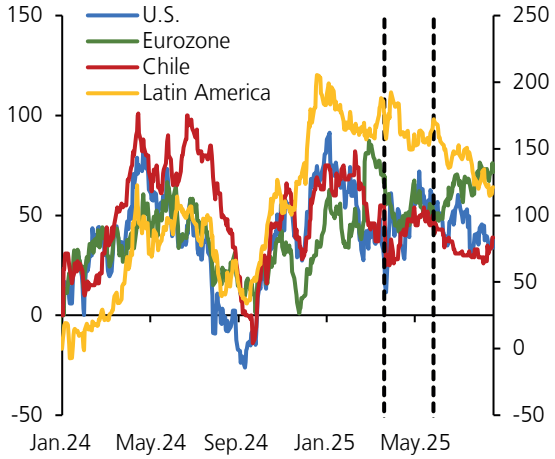
a) Currencies (1) (2) (3)
(index 01.Jan.24=100)



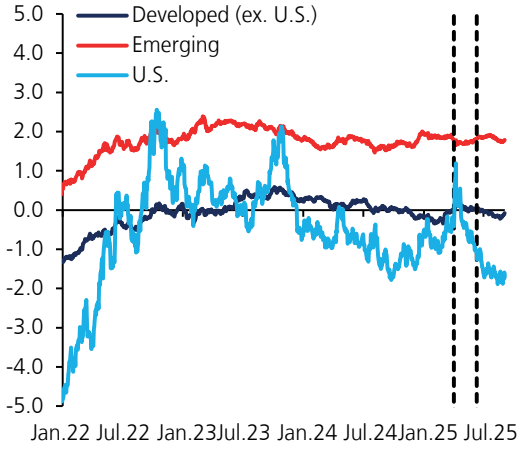
b) Stock markets (1) (2)
(index 01.Jan.24=100)



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



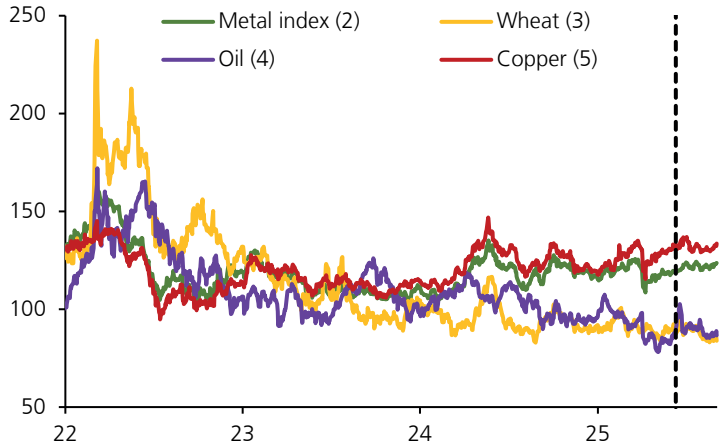
d) Goldman Sachs financial conditions index (1) (5)
(standard deviations)



(1) The left-hand dashed vertical line marks the tariff announcement date; the right-hand dashed vertical line marks the statistical closing of the June 2025 IPoM. (2) For Latin America, the simple average of the indices for Brazil, Mexico, Colombia, and Peru is used. (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.

Commodity prices continue to show mixed movements. The copper price (LME) remains around US$4.5 per pound (Figure I.6). The differential it showed with respect to the Comex price (New York) disappeared almost completely after confirmation that tariffs would not be applied to imports of concentrate and refined copper. Meanwhile, the oil price is close to its recordings at the end of June, following the easing of war tensions in the Middle East and amid OPEC announcements of production increases. Finally, the FAO food price index rose again, accumulating a 2.4% rise between May and July, driven by hikes in meat and vegetable oils.

FIGURE I.6 COMMODITY PRICES (1)
(index, 2010-2025 average=100)

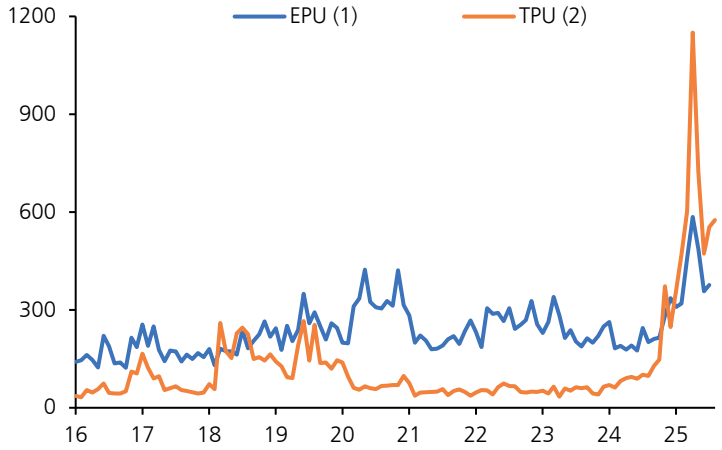


(1) Dashed vertical line corresponds to the statistical closing of the June 2025 IPoM. (2) S&P GSCI Industrial Metals. (3) Prices of futures one-month ahead. (4) WTI and Brent simple average. (5) Corresponds to the LME price.
Source: Bloomberg.

All things considered, although the international scenario shows no major changes, the risks remain significant (Box I.2). Doubts regarding the inflationary trajectory in the United States stand out. In that country, some factors that could push inflation upward have been accumulating: the impact of higher tariffs on inflationary dynamics; increased labor costs in response to greater supply constraints; and expectations of higher fiscal spending—following the approval of the new budget law and increases in defense spending.

In the rest of the world, there are also risk elements to the future evolution of activity and financial markets. The improvement in financial conditions observed in recent weeks could be reversed if inflationary pressures in the United States materialize and the Fed adopts a more contractionary stance, or if the results of tech companies' investments fall short of expectations. Furthermore, although the geopolitical and tariff situation appears more stable than a few weeks ago, the frameworks of agreement that sustain it are fragile and are institutionally shallow. This is reflected in economic uncertainty indicators, which, despite some decline, are still above their average for the last decade (Figure I.7).

FIGURE I.7 UNCERTAINTY INDICATORS
(index)



(1) Corresponds to the Global Economic Policy Uncertainty Index. (2) Corresponds to the Trade Policy Uncertainty Index.
Sources: Baker, Bloom & Davis (2016) and Caldara, Iacoviello, Molligo, Prestipino & Raffo (2020).

THE DOMESTIC SCENARIO

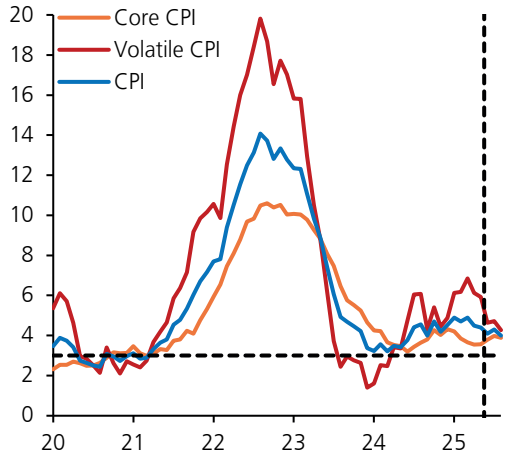
Headline inflation declined in recent months, standing at 4.0% annually in August (4.4% in May, the latest figure at the closing of the previous IPoM). In contrast, core inflation—non-volatile CPI—rose during this period, to 3.9% annually in August (3.6% in May) (Figure I.8).[1]/ Since the June IPoM, the cumulative variation in this component has been above forecasted, for both goods and services. This has been offset by the volatile part of the CPI, where a fall in the prices of goods, particularly foods, has stood out (Figure I.9).

In the recent trajectory of core inflation the influence of factors with varying degrees of persistence combines. On the one hand, the rise in goods prices—which has been relatively widespread—has occurred in the context of exchange rate depreciation and more dynamic domestic spending. On the other hand, the evolution of services—focused on specific elements—is framed in a context of high wage pressures observed in recent quarters. The latter is also reflected in the July Price Determinants and Expectations Survey (EDEP) and the August Business Perceptions Report (IPN), where labor costs emerge as one of the most pressing concerns for firms (Figure I.10).

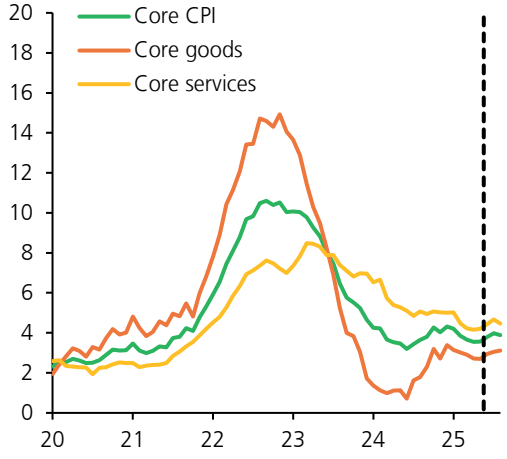
[1]/ Prior to 2025, the CPI series considers the 2023 reference basket with the BCCh splicing. For the recent evolution analysis in this Report, the August figure, published after the statistical closing, is considered. For the forecasts in Chapter II, inflation series are considered only through July.

FIGURE I.8

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

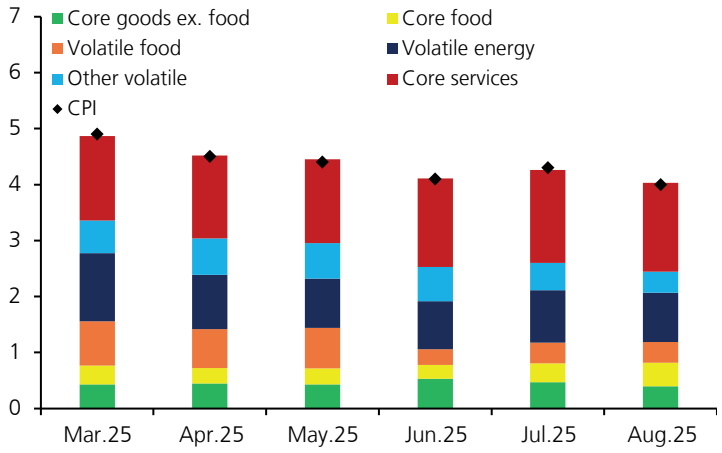


b) Core inflation (1) (2)
(annual change, percent)



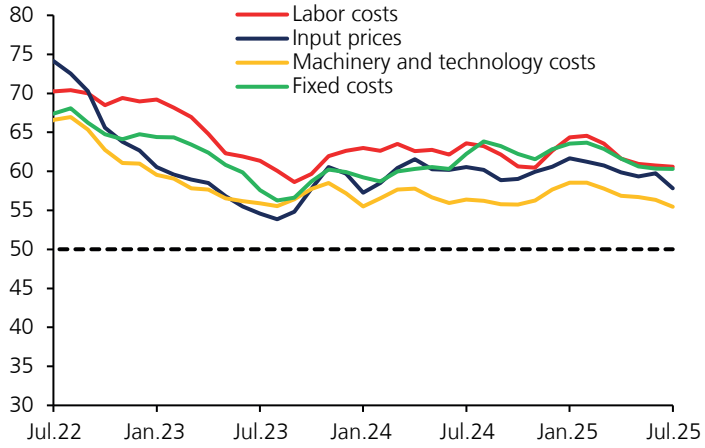
(1) Prior to 2025, the CPI series considers the 2023 reference basket with the BCCh splicing. (2) Dashed vertical line corresponds to the statistical closing of the June 2025 IPoM.
Sources: Central Bank of Chile and National Statistics Institute..

FIGURE I.9 CONTRIBUTIONS TO THE ANNUAL VARIATION OF THE TOTAL CPI (1)
(contributions, percentage points)



(1) Prior to 2025, the CPI series considers the 2023 reference basket with the BCCh splicing.
Sources: Central Bank of Chile and National Statistics Institute.

FIGURE I.10 EDEP: EVOLUTION OF FIRM COSTS FOR THE NEXT 3 MONTHS (1)
(diffusion index)

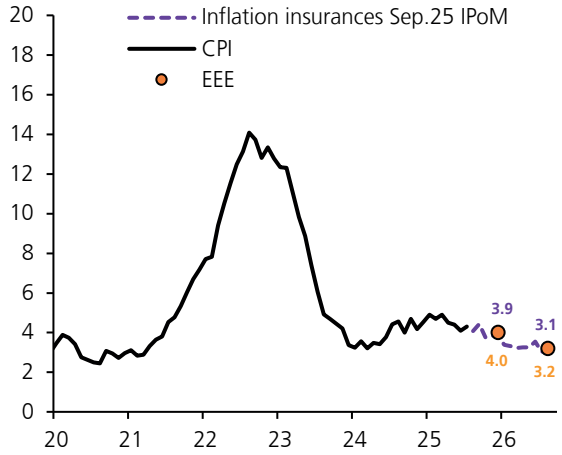


(1) Price Determinants and Expectations Survey. Values above 50 indicate a higher proportion of responses indicating an increase, while values below 50 indicate a higher proportion of responses indicating a decrease.
Source: Central Bank of Chile.

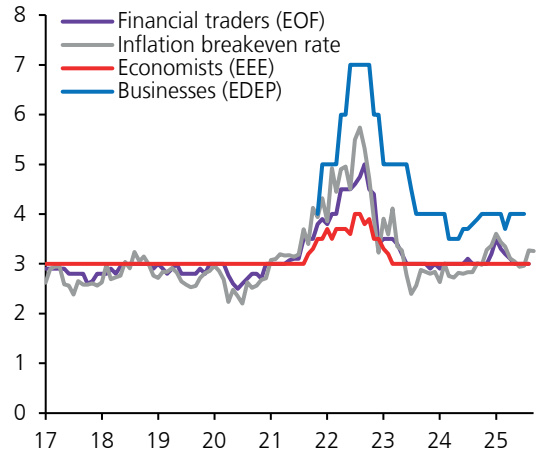
In turn, inflation expectations according to surveys of specialists are in line with the 3% target on the policy horizon (Figure I.11). At one year, both the August Economic Expectations Survey (EEE) and the Financial Operators Survey (EOF) prior to the September monetary policy meeting, as well as inflation insurances, forecast annual CPI inflation to be around 3%. At a two-year horizon, both surveys place inflation at 3% and breakeven inflation hovering around that level.

FIGURE I.11

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



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

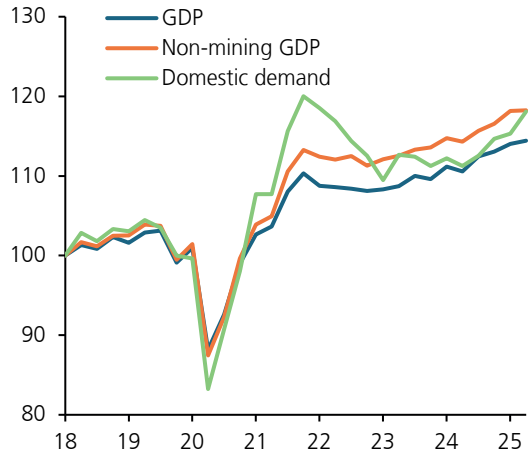


(1) Prior to 2025, the CPI series considers the 2023 reference basket with the BCCh splicing. Inflation insurances consider average prices of the last ten days as of September 3rd. (2) For surveys, median of responses are shown. (3) EOF considers the survey of the first half of each month until January 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 September 2025 the average of the last ten days as of September 3rd is used.
Source: Central Bank of Chile.

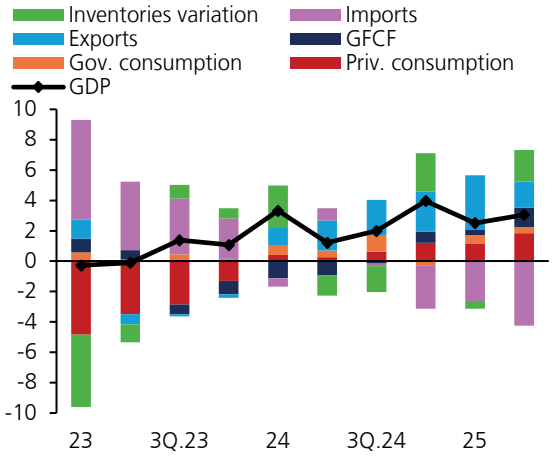
Activity has evolved in line with expectations, confirming the transitory nature of the factors that drove it at the beginning of the year, associated with exports of goods and tourism. Thus, in the second quarter, total and non-mining GDP grew by 0.4% and 0.1% q/q—seasonally adjusted quarterly change—respectively (0.8% and 1.4% q/q in the first quarter) (Figure I.12). In July, the seasonally adjusted non-mining Imacec grew 0.5% month-on-month (2.5% annually, original series). This result was driven by the acceleration of domestic trade, mainly influenced by wholesale trade, and services, explained largely by entrepreneurial services. This contrasted with declines in manufacturing and other goods (Figure I.13).

FIGURE I.12

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

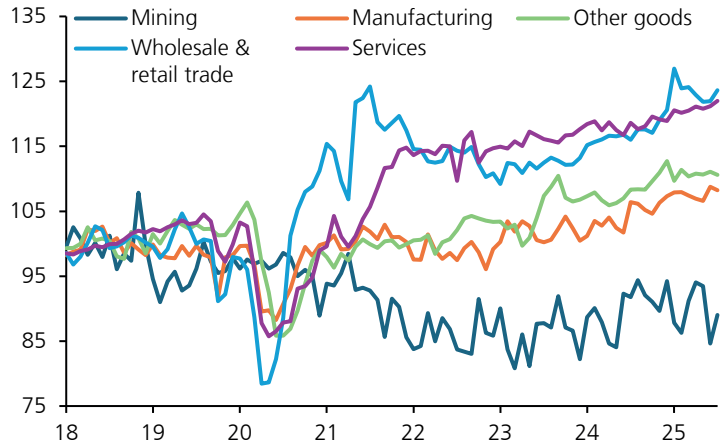


b) GDP demand
(contributions to real annual change, percentage points)



Source: Central Bank of Chile.

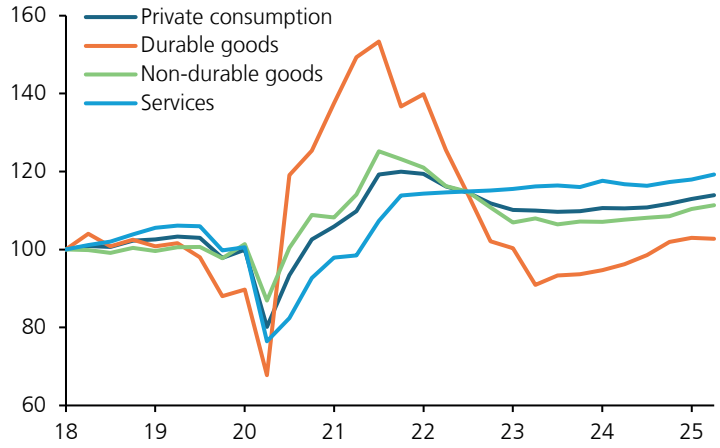
FIGURE I.13 IMACEC BY SECTORS
(index 2018 average=100, real seasonally adjusted series)



Source: Central Bank of Chile.

Domestic demand, on the other hand, has performed better than expected, supported mainly by investment and, to a lesser extent, by private consumption. As a result, domestic demand increased its contribution to economic growth (Figure I.12b). Household consumption rose 0.9% q/q in its seasonally adjusted series during the second quarter (3.1% annually, original series), highlighting the dynamism of consumption of non-durable goods and services (Figure I.14). High-frequency indicators—the monthly retail trade activity index (IACM) and electronic ticket sales—suggest that part of this dynamism may have slowed at the beginning of the third quarter. In the August IPN, several retailers mention that their performance moderated compared to the first quarter, although their businesses continue to grow compared to a year ago. For its part, government consumption moderated its growth compared to the beginning of the year, to 2.6% annually, with an increase in health-care services standing out.

FIGURE I.14 PRIVATE CONSUMPTION BY COMPONENTS
(index 1Q2018=100, real seasonally adjusted series)

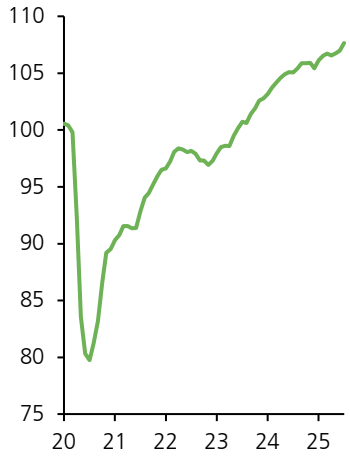


Source: Central Bank of Chile.

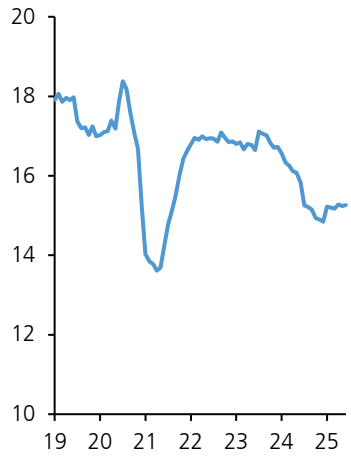
Private consumption is growing against a backdrop of favorable developments in some of its fundamentals (Figure I.15). On the one hand, the real wage bill has continued to grow, albeit at a slower pace than in previous months. Its composition contrasts low job creation with a sharp increase in wages (Box I.3). On the other hand, the financial situation of households has improved compared to previous years, thanks to both lower interest rates and a lighter financial burden. In any case, bank consumer loans remain sluggish. In addition, household expectations (IPEC) show an improvement compared to previous years.

FIGURE I.15 DETERMINANTS OF PRIVATE CONSUMPTION

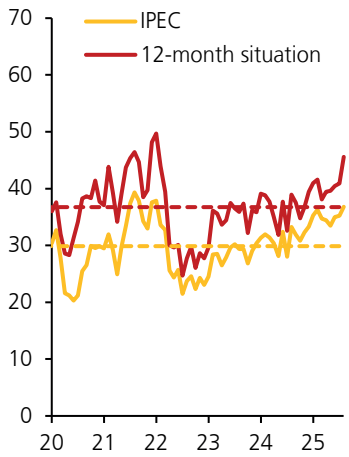
a) Real wage bill (1)
(index 2019=100, seasonally adjusted)



b) Median of financial burden on labor income ratio
(percent, 6-month moving average)



c) Economic Perception Index (IPEC) (2) (3) (4)
(diffusion index)



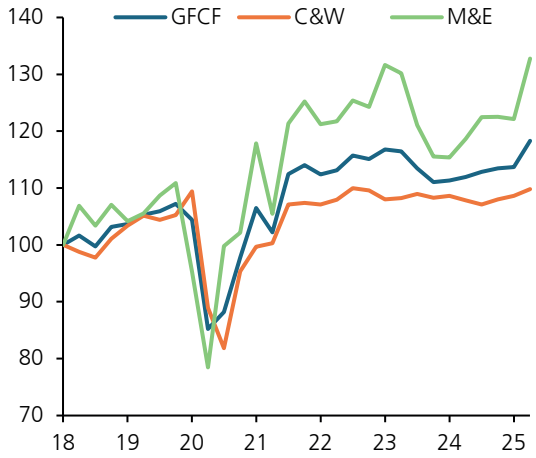
(1) Estimate based on seasonally adjusted series of real LCI, habitual worked hours and employment. (2) Value above (below) 50 indicates optimism (pessimism). (3) Dashed horizontal lines corresponds to 2020-2025 average of each index. (4) 12-month situation refers to Chile's economic situation.
Sources: National Statistics Institute (INE), Central Bank of Chile and GfK Adimark.

Gross fixed capital formation (GFCF) grew significantly during the second quarter (Figure I.16a). This component of expenditure, in seasonally adjusted terms, grew by 4.0% q/q (5.6% annually, original series), mainly explained by the strong acceleration in the machinery & equipment component (8.7% q/q, seasonally adjusted series; 11.4% annually, original series). The latter would be mainly linked to mining and energy machinery. Although to a lesser extent, construction and other works also contributed to the evolution of GFCF (1.1% q/q, seasonally adjusted series; 2.0% annually, original series), a component that has continued to recover gradually.

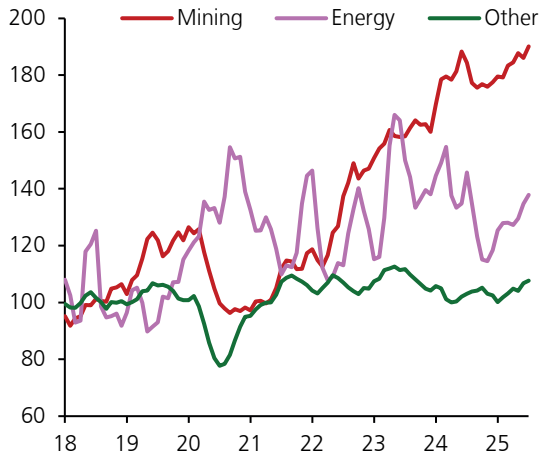
Various indicators continue to point to a favorable evolution of GFCF. The Capital Goods Corporation (CBC) survey for the second quarter again showed an improvement in the outlook for investment in large-scale projects planned for 2025-2028 (+8.5% compared to the survey for the first quarter of 2025), an adjustment that owes mainly to the incorporation of new plans in the energy sector. This would be in line with the greater momentum of this sector and the mining industry in contrast to other sectors of the economy, as suggested by microdata (Figure I.16b). Likewise, imports of capital goods have continued to grow strongly in recent months (Figure I.17). Added to this is the improvement, compared to previous years, in both business expectations (IMCE excluding mining) and commercial lending interest rates, as well as the decline in uncertainty indicators compared to the June IPoM.

FIGURE I.16

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

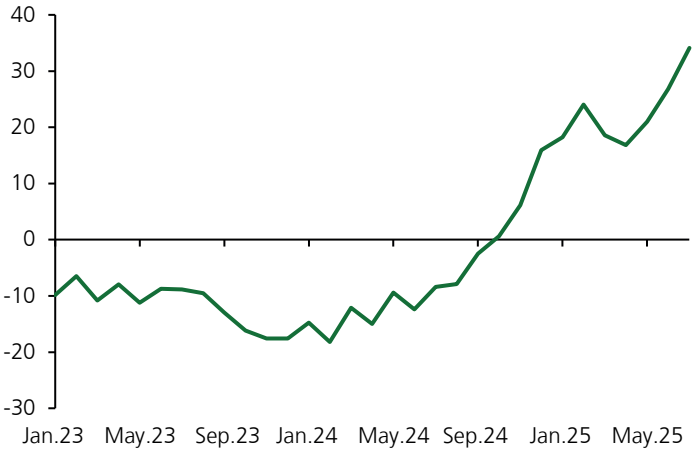


b) Sectoral investment indicators (1)
(2018 = 100, quarterly moving average, real seasonally adjusted series)



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

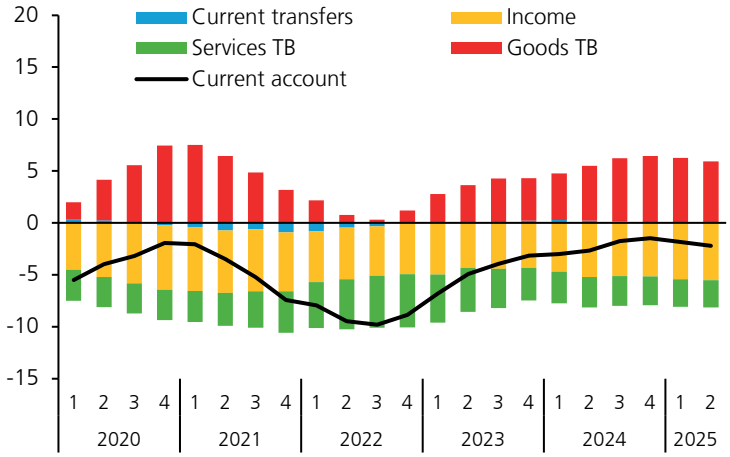
FIGURE I.17 CAPITAL GOODS IMPORTS (1)
(annual change, percent)



(1) 3-month moving average.
Source: Central Bank of Chile.

Strong import growth, consistent with increased spending, and slowing exports contributed to the widening of the current account deficit in the second quarter (figures I.18 and I.19). It reached 2.2% of cumulative GDP over twelve months (1.8% of GDP at the end of the first quarter). In terms of the trade balance, exports fell quarterly, both in services—due to reduced tourism and non-resident spending—and goods, mainly due to the slowdown in mining and agricultural shipments to the United States. In the case of imports, there were widespread increases in goods, in contrast with the decline in services. There was also an increase in the net income deficit, in line with the rise in foreign direct investment in Chile.

FIGURE I.18 CURRENT ACCOUNT, CONTRIBUTIONS BY COMPONENT
(percent of GDP, moving annual total)

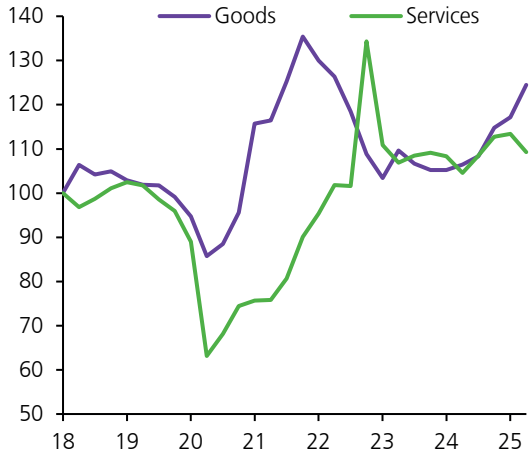


Source: Central Bank of Chile.

FIGURE I.19 INTERNATIONAL TRADE

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

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

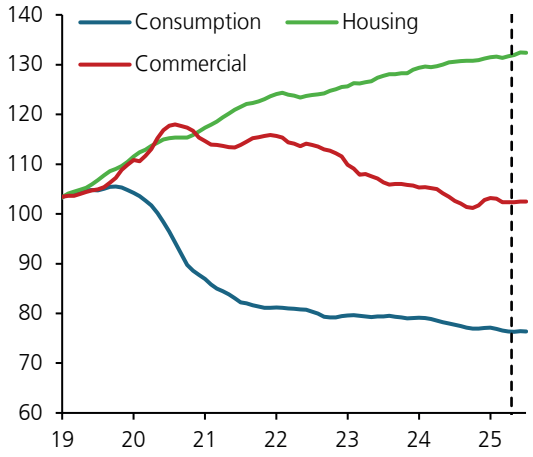


Source: Central Bank of Chile.

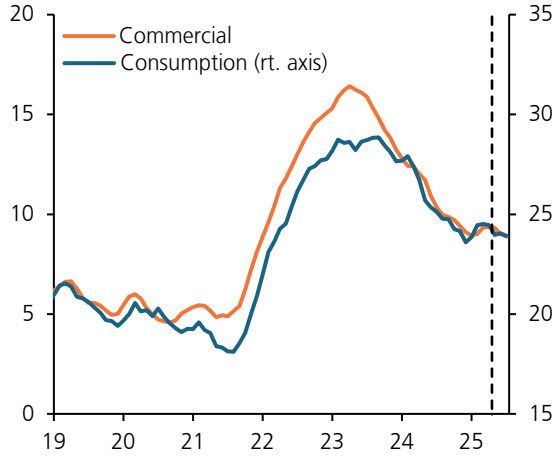
Bank credit has not changed significantly, although commercial credit stock stopped falling in real terms. This occurred in the context of persistently weak demand for credit (Figure I.20). Commercial lending grew modestly in real terms in July, after several years of declines. The Banking Credit Survey (ECB) for the second quarter continued to report perceptions of weak demand in most portfolios and no major changes in supply. With regard to perceptions of demand in the housing segment, there appears to be some recovery, as reported by the ECB for the second quarter and the August IPN. According to the latter, part of this recovery is associated with the implementation of the mortgage loan subsidy.

FIGURE I.20

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 June 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:

Global spending on defense

The fiscal situation in the main economies has deteriorated steadily over the past few years, and the outlook does not point to an improvement, which is generating upward pressure on long-term interest rates. These conditions are intensified by the new geopolitical environment, which has led to commitments of significant increases in defense spending in the coming years. This dynamic has two important consequences for global financial markets: on the one hand, it increases the already high upward pressure on long-term interest rates; on the other, it supports the price of strategic commodities used in the military industry, such as copper.

Defense spending has entered a new phase of expansion around the world, particularly in developed countries. In Europe, for example, after four decades of decline or stagnation, several European Union members once again exceeded the 2% of GDP threshold in 2024 (Figure I.21). Similarly, at their meeting in June this year, NATO countries agreed to increase their defense spending to 5% of annual GDP by 2035, divided into 3.5% for basic defense spending and 1.5% for related spending, up from the current level of 2.6%. Japan, for its part, announced that it would double its military budget over a five-year period, altering its policy that has been in place since the end of World War II. Considering all the increases in spending observed and announced for the next decade, Álvarez et al. (2025) estimate that, in the period 2024-2035, global defense spending would increase by between 57% and 80% in real terms. This would mean that such spending would rise from around 2.5% of global GDP to between 3% and 3.5% (Figure I.22)[1]/.

Spending increases of this magnitude, in a fiscal context with little room for maneuver, are particularly challenging. This is especially true because, for the moment, there are no signs that the increased spending will be accompanied by financing or compensation measures in other spending categories. The case of the European Union stands out, as it announced a relaxation of fiscal rules to accommodate increased spending through deficits and additional debt. Álvarez et al. (2025) estimate that the announcement of the ReArm Europe plan—which would imply a permanent increase in spending of 1.5 percentage points (pp) of GDP per year and allow the 3.5% target for basic spending to be reached—led to an increase of around 25 basis points (bp) in the 10-year rates of the countries involved (Figure I.23). It is conceivable that, as the higher deficits materialize, additional pressure on rates will be observed.

The higher defense spending also has implications for the demand for commodities. Copper, which is essential for the military industry, is becoming increasingly important due to its use in advanced technologies such as guided weapons and drones[2]/. Álvarez et al. (2025) estimate that a 1pp increase in US military spending increases demand for refined copper by around 5% (Figure I.24). Based on this result, and considering global spending announcements, the authors calculate that the demand for copper generated by defense spending could grow by around 485,000 tons over the next decade. This represents just over 1.8% of current global consumption and is roughly equivalent to half of the annual production of Escondida (the world's largest producer of copper cathodes and concentrate).

[1]/ For the US, the forecasts included in the 2026 budget and the OBBBA guidelines are used, with convergence expected from 3.4% of GDP to closer to 4.0% in 2035. These figures are in line with the historical evidence presented by Albagli et al. (2024), who conclude that, in periods of severe geopolitical tensions without large-scale conflicts, military spending increases by around 1 pp of global GDP.

[2]/ Hackett J. et al. (2025). Critical Raw Materials and European Defence. The International Institute for Strategic Studies.

In a context of constrained supply and demand that is relatively insensitive to price—mainly due to the low elasticity of demand for data centers and the energy transition—this increase in demand for copper could put significant pressure on prices. Assuming that supply does not react in the short term, Álvarez et al. (2025) estimate an impact of between 3% and 6% on prices. Along the same lines, the semi-structural decomposition proposed by Zelpo et al. (2024)—and described in Box I.2 of the June 2024 IPoM—highlights that, since the beginning of this year, geopolitical factors have been among the main determinants of copper price movements, accounting for almost half of the observed increase (Figure I.25). This factor includes not only the direct effect of increased arms production, but also higher demand due to the need to secure the supply of strategic inputs.

Conclusion

The fiscal deterioration in developed economies is putting upward pressure on long-term interest rates. The new geopolitical environment and its consequences for defense spending add a new source of pressure, which tends to negatively affect financial conditions globally, especially in emerging economies. However, higher defense spending also improves the outlook for prices of strategic inputs such as copper and related investments. Chile is therefore in a more favorable position than other emerging economies, because although higher long-term interest rates would prevail, their contractionary effect is offset by higher copper prices and better investment prospects, consistent with the upward revisions to GFCF contemplated in the central scenario of this IPoM.

FIGURE I.21
Evolution of defense expenditure (1)
(percent of GDP)

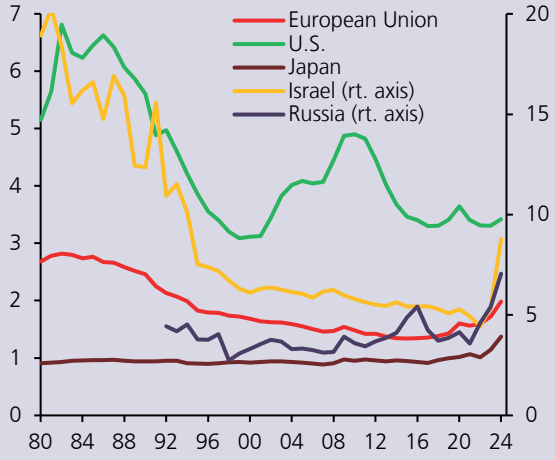
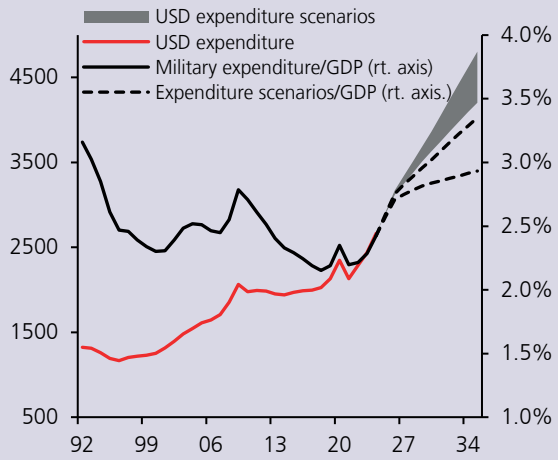


FIGURE I.22
Forecast of defense expenditure (2)
(real USD billion, 2024 prices; percent of global GDP)



(1) For the EU, the chart shows the weighted average (based on GDP at purchasing power parity) of defense spending as a percentage of GDP. (2) The lower spending scenario was built based on the minimum commitments made by states and military alliances, while the higher spending scenario was built based on the full adoption of those commitments.
Source: Álvarez et al. (2025) and SIPRI.

FIGURE I.23
10-year rate increase in EU countries respect to control group (1)
(cumulative change since 03.Mar.25, basis points)

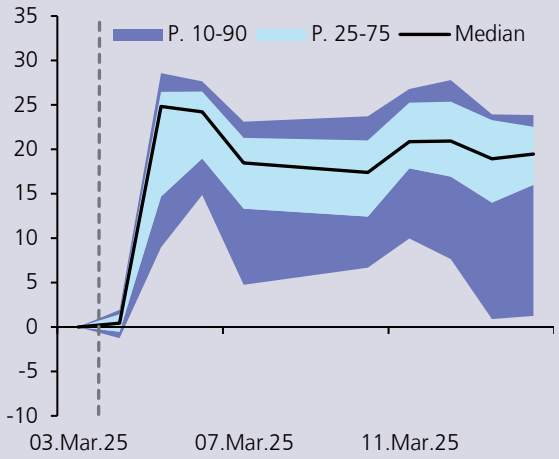
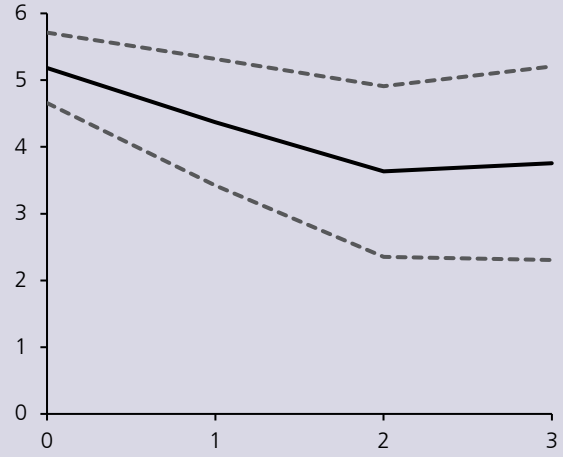
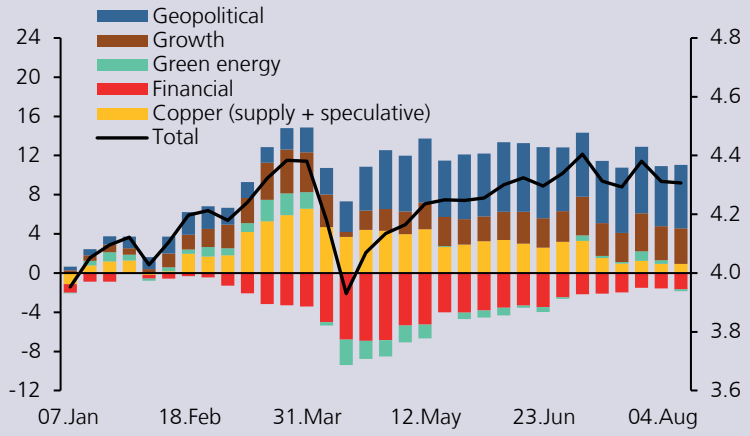


FIGURE I.24
Causal effect of U.S. military spending shock on copper demand (2)
(1 pp. shock to military expenditure/GDP ratio to copper consumption)



(1) Difference-in-differences analysis of the evolution of 10-year interest rates. The treated group includes countries within the European Union; the control group consists of countries aligned with the Western bloc but not EU members (Australia, Japan, South Korea, Norway). (2) Cumulative IRF. The exercise is based on annual data for the U.S. starting in 1940. The estimation is conducted using a Local Projections approach (Jorda, 2005) with instrumental variables, where the narrative military spending shock from Ramey and Zubairy (2018) is used as an instrument for military expenditure. Confidence intervals are set at 66%.
Source: Álvarez et al. (2025).

FIGURE I.25
Decomposition of copper price (1)
(percent, cumulative change; USD/pound)



(1) Bayesian VAR with sign restrictions at weekly frequency based on Zelpo et al. (2024).
Source: Álvarez et al. (2025).

BOX I.2:

Inflationary risks in the United States

The central scenario of this IPoM foresees an increase in inflation in the United States, concentrated in 2025 and 2026, as a result of that government's tariff policy (see details in Box II.2 of the June 2025 IPoM). It should be noted that this increase is in line with the market projections and the Fed's dots. However, there are risks surrounding this forecast that could lead to monetary policy in the American economy following a less expansionary path than that anticipated by the market and the one considered in the central scenario of this IPoM, affecting the financial conditions relevant to emerging economies. In particular, the risks associated with the ultimate impact of higher tariffs on inflation dynamics, of immigration policy on the labor market, and of more challenging fiscal prospects stand out.

First, although tariffs' inflationary effects are not yet clearly visible in the aggregate data, the disaggregated figures show that the most exposed goods have seen greater price increases (Figure I.26). Similarly, using online sales price data from large U.S. retailers, Cavallo *et al.* (2025) find that there have been greater increases in the prices of imported goods than in those of domestic production. As uncertainty about the final level of tariffs and anticipation practices dissipate, a scenario of more significant impacts of tariffs on aggregate figures than those considered in market projections may materialize.[1]/ The persistence of these effects will depend, among other things, on how they affect agents' expectations.

To the latter, it is added that immigration policies have significantly reduced the inflow of immigrants (Figure I.27), compounded by direct deportations and reduced participation due to fear of workplace detentions. On this point, the *July Beige Book* noted that companies perceived fear of deportation to be a significant factor in their loss of foreign workers. Consistently, data from the U.S. Bureau of Labor Statistics show that, compared to March of this year, the labor participation rate of foreigners has fallen by almost 1.5 percentage points (pp), while that of natives has remained relatively stable (Figure I.28). This represents a contractionary labor supply shock, which reduces the pace of job creation and activity, and puts upward pressure on wages. Cheyre *et al.* (2025) show that this situation would be generating an increase in real wages of around 0.1 pp per month above their average, compared with below-average declines of the same magnitude during the period of highest migrant inflows (Figure I.29). Thus, the real wage level would be between 0.7 and 1.0 pp above a scenario without the policy change, a factor that exerts greater inflationary pressures.

On the other hand, the fiscal package approved on 4 July includes temporary tax cuts and increased spending in defense and immigration control, while planned spending cuts would be implemented gradually as from the end of 2026, concentrated in the years 2029 to 2034. The fiscal boost resulting from these measures is estimated to be between 0.2 and 0.4 pp of GDP growth in 2026, [2]/ which would add demand pressures on prices. Going forward, the fiscal deficit is projected to remain above 6% of GDP.

[1]/ For details, see Cheyre *et al.* (2025).

[2]/ Compilation of investment banks and economic organizations estimates, such as Barclays, Bank of America, J.P. Morgan, Morgan Stanley, Penn Wharton, and UBS.

In this context, there has been an incipient increase in market inflation expectations. Breakeven inflation rate implicit in asset prices can be broken down into a component of pure expectations—which would reflect market's average point projection for inflation—and a component of risk associated with those expectations—which reflects uncertainty surrounding that projection. Since the end of last year, one-year breakeven inflation has risen by around 100 basis points (bp) to 3.4%. This is mainly due to the increase in pure expectations, although in recent months the premium component has also risen, contributing around 15 bp to the increase of the last month (Figure I.30). This is consistent with various consumer and business expectations surveys. At longer maturities, breakeven inflation and surveys show more moderate increases. However, the increase of two-year expectations stands out in the margin.

Conclusion

The US economy faces a set of shocks that raise inflationary risks in the short and medium term. If these shocks materialize, the Fed's monetary policy could deviate from what market currently expect and from the central scenario presented in this IPoM, which would tighten financial conditions worldwide, especially in emerging economies.

FIGURE I.26

Inflation of goods exposed to tariffs (1)
(accumulated inflation excess since Jan. 24, percentage points)

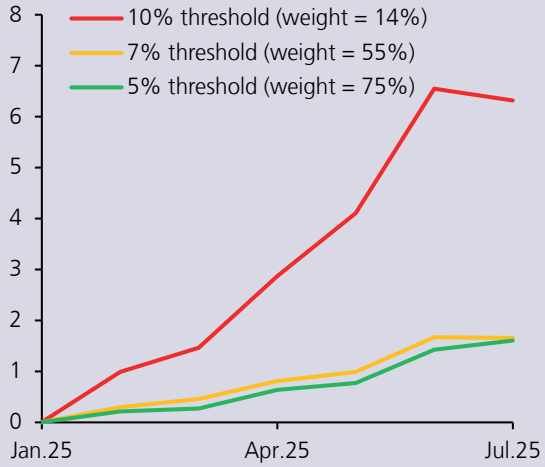
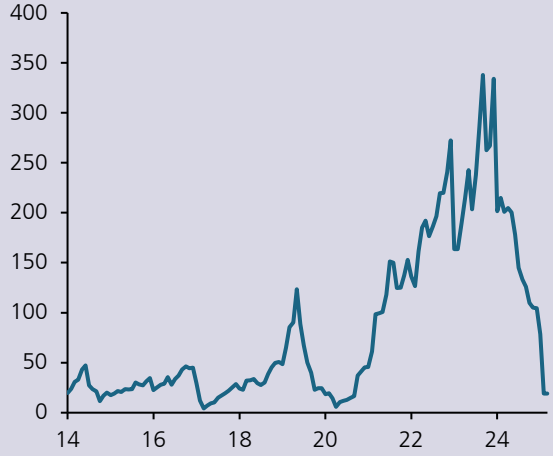


FIGURE I.27

Net flow of unauthorized immigrants
(thousands)



(1) The threshold is defined based on the expected impact on each product (e.g., items with high tariff exposure—10% threshold—those with an estimated impact of at least 10%). Inflation excess is computed as observed inflation minus the six-month moving average through January 2025.
Sources: Cheyre *et al.* (2025) and Dallas Fed.

FIGURE I.28
Labor force participation rate
(percent)

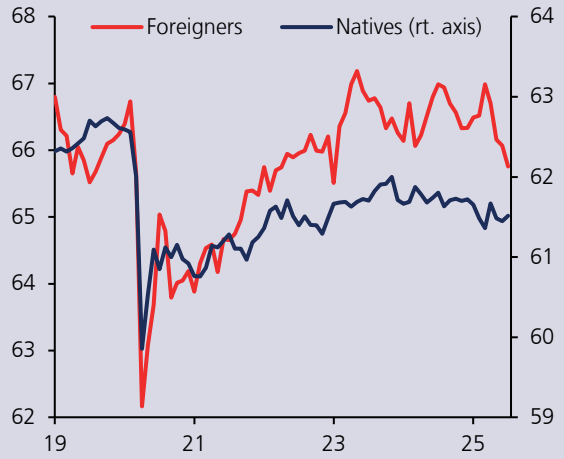
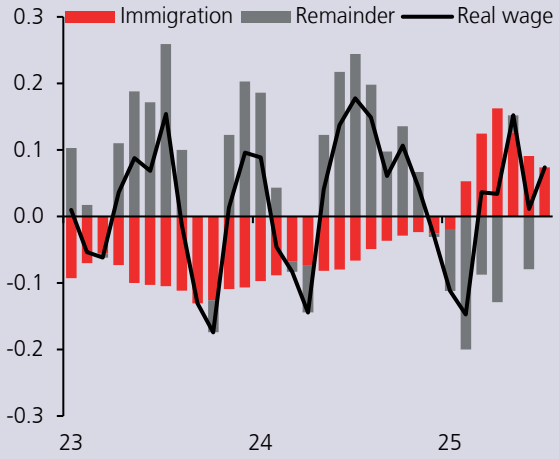
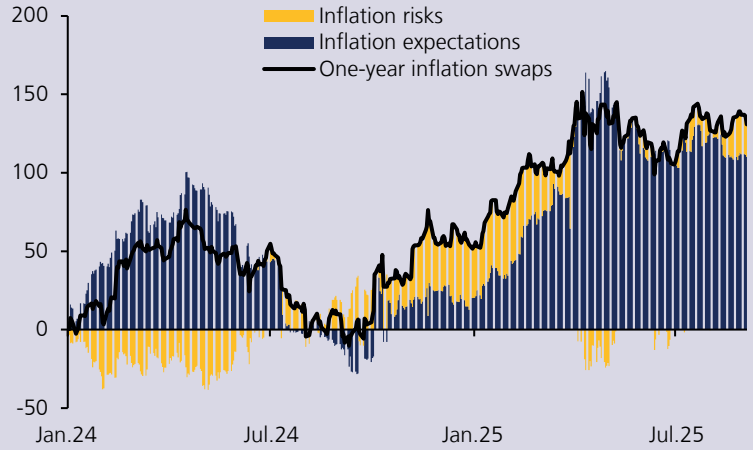


FIGURE I.29
Real wage growth (1)
(monthly change, quarterly moving average, deviation from the average, percentage points)



(1) VAR model with net flows of unauthorized immigrants as an exogenous variable. For immigration, the Dallas Fed series is used, and net flows are assumed to remain at the March level through July. The figure represents deviations from the 2013.10 - 2025.07 average.
Sources: Cheyre *et al.* (2025) and U.S. Bureau of Labor Statistics.

FIGURE I.30
One-year inflation swap decomposition (1)
(accumulated since December 2024, basis points)



(1) Pure expectations are obtained from Bloomberg analyst surveys. Premium component is the difference between swap and expectations.
Source: Cheyre *et al.* (2025).

BOX I.3:

Labor market evolution

The labor market is showing mixed signals. In a context where activity has been growing at rates consistent with its potential and the gap has been closing, employment is growing moderately, and the unemployment rate remains above its pre-pandemic levels. Meanwhile, administrative records —the number of contributors to the Unemployment Fund Administrators (AFC)— show that the net rate of formal job creation has been mostly negative or close to zero from 2023 to date[1]/. Job creation and destruction, which are variables related to labor turnover, are also at record lows. Similarly, the time spent searching for formal employment has been on the rise since 2023[2]/. On the other hand, labor costs have been growing above their pre-pandemic average (Figure I.31).

Past Bank reports have proposed various factors to explain this dynamic, including higher labor costs —resulting from minimum-wage laws and reduced working hours—, the sluggish recovery of certain labor-intensive sectors, and more structural factors such as demographic changes and the adoption of new technologies in production processes (Box II.1 in December 2024 IPoM; Albagli *et al.*, 2024).

This Box presents new evidence on how different elements combine to explain the most recent developments in the labor market. Quantitatively, it confirms the negative impact of rising labor costs on employment. This evidence is complemented by qualitative data suggesting that these higher costs may be acting as a catalyst for technological change, replacing certain types of jobs, or creating mismatches between the skills required by employers and those that the workforce can offer.

Causal analysis of the effects of increasing labor costs

In May 2023, Law 21,578 was approved, establishing minimum wage increases of 7.3% in May 2023, 4.5% in September 2023, 8.7% in July 2024, and 2.1% in January 2025 —accumulating a 24.5% increase between April 2023 and January 2025, compared to the cumulative CPI increase of 7.0% during the same period. The wage index measured by the National Statistics Institute (INE) —which is representative of the monthly evolution of hourly wages for formal employment in the country— showed an increase of 14.2% during that period, indicating that the rise in the minimum wage far exceeded the average increase in wages[3]/.

Albagli *et al.* (2025) update the work presented at the end of last year, in which, based on administrative records from AFC, they divide firms into two groups according to their fraction of workers subject to the minimum wage. Their results show that, on average between March 2023 and April 2025, wages in firms with more workers earning the minimum wage grew 4.8% more than those in firms with fewer workers being paid the minimum wage. At the same time, employment in those firms fell by an average of 5.6% compared to employment in the less affected firms (Figure I.32, panels a and b).

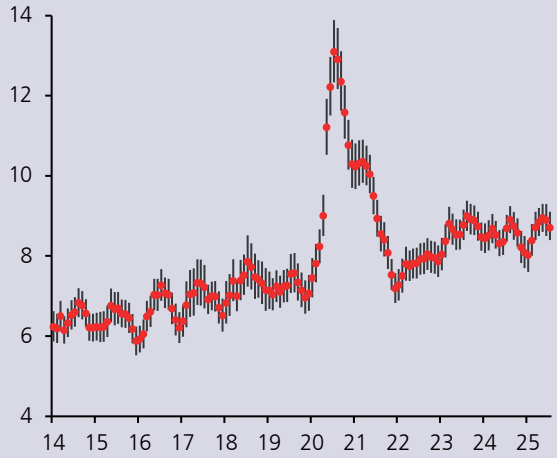
[1]/ In the case of administrative records, formal employment refers to contributors to the pension system (AFP, mandatory contributions) and unemployment insurance (AFC). However, in INE surveys, formal employment is defined as employees with access to social security through their employment relationship, as well as self-employed workers who report working in the formal sector. These groups of workers are not necessarily equal for various reasons (group covered, nature of sources, measurement criteria, etc.).
[2]/ The formal job search time is calculated using AFC data, such as the average number of months spent outside formal employment by workers who find employment in each month, excluding those who take longer than 24 months. For details, see Albagli *et al.* (2025).
[3]/ Both the cumulative increase in the CPI and the labor cost index (ICL) are calculated by splicing the reference series.

Two additional facts emerge from this exercise. First, the composition of employment in the most affected firms shifted toward a higher proportion of workers with higher education. Second, the impact is observed across different economic sectors and firm sizes. A complementary exercise shows that the upward impact on wages and downward impact on employment is observed not only among workers earning the minimum wage, but also among those with wages close to it (Figure I.32, panels c and d).

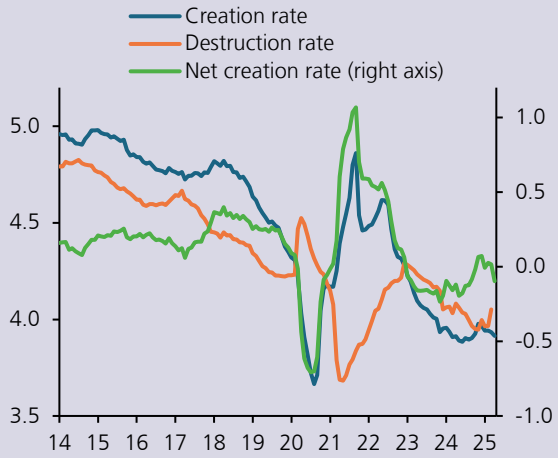
The exercise does not allow for estimating the aggregate effects of the minimum wage on the variables analyzed. Furthermore, as in other exercises of this nature, the results depend on the particular macroeconomic context in which the measure is implemented and cannot necessarily be extrapolated to other situations.

FIGURE I.31

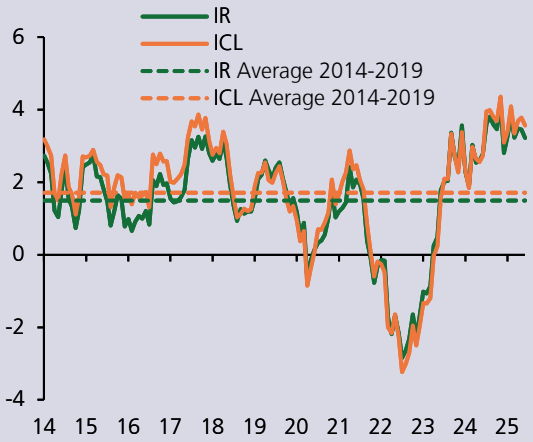
a) Unemployment rate (1)
(percent)



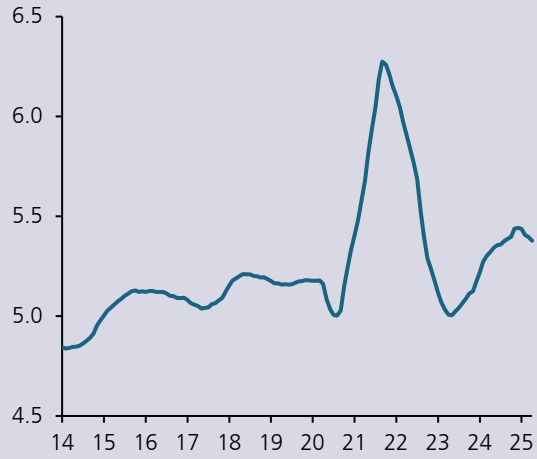
b) Creation, destruction and net creation rates (2)
(percent)



c) Real hourly wages
(annual change, percent)



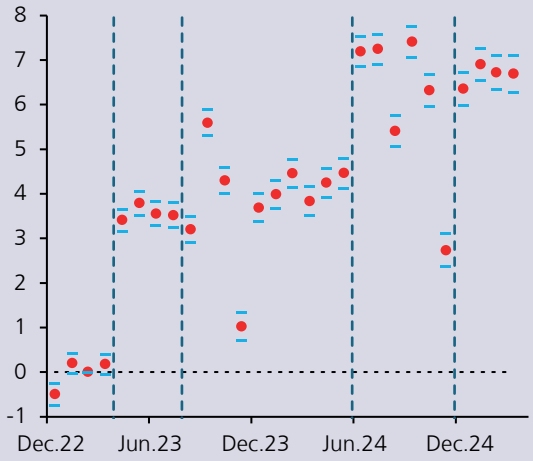
d) Job search time (2)
(months)



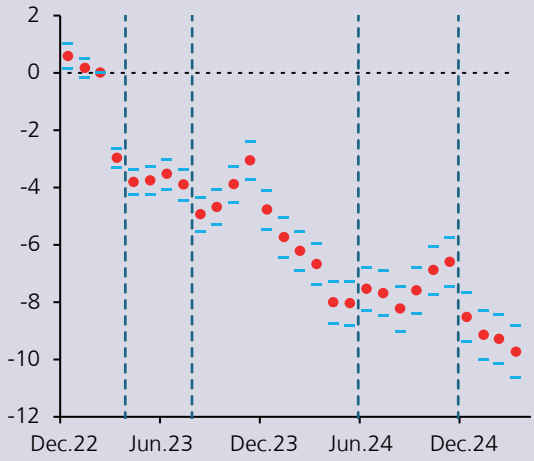
(1) Point estimates based on INE data are reported in red, while the vertical black lines capture the 95% confidence interval.
(2) The series are constructed using AFC data that includes lagged contributions and are spliced using the growth rates of the same series with data that do not include lagged contributions..
Sources: AFC and INE.

FIGURE I.32

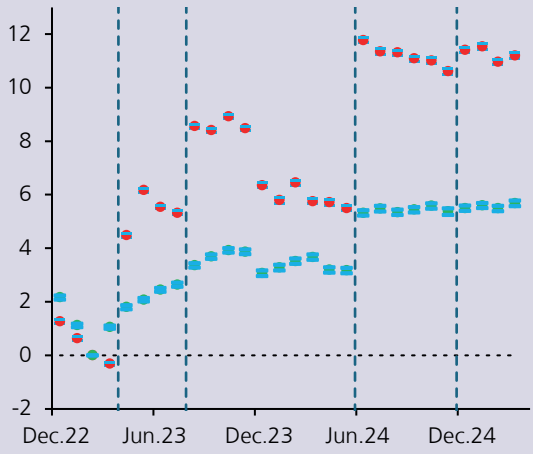
a) Effects of minimum wage on average wage (1)
(percent, groups of firms)



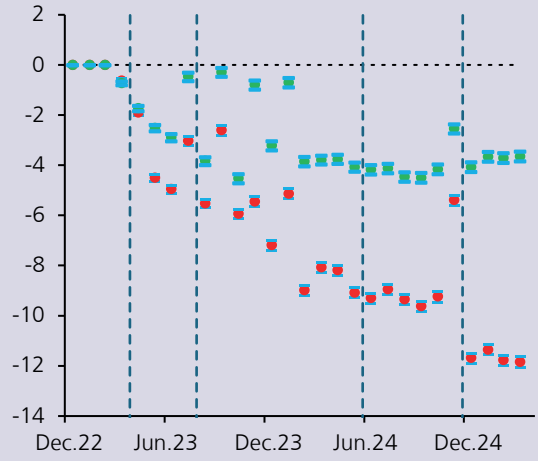
b) Effects of minimum wage on average employment (1)
(percent, groups of firms)



c) Changes in wages and spillovers (2)
(percent, groups of workers)



d) Changes in employment and spillovers (2)
(percent, groups of workers)



(1) Difference-in-differences exercise with treatment and control groups of firms. (2) Difference-in-differences exercise with treatment, semi-treatment, and control groups of workers. Red markers indicate effects on the treatment group. Green markers indicate effects on the semi-treatment group. Confidence intervals are in light blue for both groups. 95% confidence intervals are used in all figures. Vertical lines correspond to months in which minimum wage increases occurred.
Source: Albagli *et al.* (2025) based on AFC and DT data.

Analysis of the aggregate effects of the labor cost increase

Although the above exercise allows establishing a causality between the labor cost increase and employment and other variables, it is not designed to quantify the aggregate effects on the labor market. For this purpose, two additional methodologies are used. In the first, Albagli *et al.* (2025) conduct estimates of a semi-structural SVAR model[4]/. This method yields that, in the last year, various supply and cost shocks —including the increased minimum wage and the 40-working-hour week law— account for most of the rise in labor costs and have had a negative impact on employment (Figure I.33). According to these estimates, a real increase in the minimum wage similar to that observed since 2023 causes a drop of approximately -1.5% in formal wage employment and a somewhat smaller impact on total employment, which is to be expected given the cushioning role that informal and self-employment tend to play when unemployment rises.

In the second methodology, Albagli *et al.* (2025) use an extension of the XMAS general equilibrium economic model (García *et al.*, 2019) to understand recent wage and employment behavior[5]/. Their results suggest that, in the period 2022-2025, legislative measures have increased both average wages and the unemployment rate. With regard to the former, the average effect on the real wage level has been around 1.1% when all policies are considered, and 0.85% when only the minimum wage is considered. Unemployment is estimated to rise by up to 0.3 pp above its long-term level. These estimates do not include the effect that legislative measures may have had on the reference unemployment rate (NAIRU), which, as mentioned above, has risen in recent years. According to this model, legislative measures will continue to put pressure on labor costs and employment dynamics in the coming quarters to a similar extent as observed in recent years, to then dissipate gradually, something that is factored into the central scenario of this IPoM.

Qualitative evidence of automation trends

Albagli *et al.* (2025) review the information obtained in the Business Perceptions Report. By applying qualitative analysis techniques to the transcripts of 365 semi-structured interviews conducted between February 2023 and August 2025, they conclude that, according to the firms' perceptions, a new organizational equilibrium characterized by smaller workforces has taken hold in recent years. This is explained not only by the evolution of economic activity or higher costs, but also by the introduction of new technologies, work reorganization, and regulatory pressures.

According to this analysis, these trends do not operate in isolation but rather reinforce each other and generate chain effects. For example, in the opinion of the firms, automation has made it possible to operate with fewer staff, which has contributed to consolidating minimum efficient staffing levels. In turn, this reduction has created gaps in the labor market, especially in lower-skilled segments. At the same time, automation has transformed the profiles required, which partly explains the difficulty in finding skilled labor, especially in more technologically advanced sectors. Labor cost pressures, in the opinion of businesses, have acted as a catalyst for these processes, encouraging the search for efficiency and the incorporation of technology.

In turn, evidence from administrative records suggests that, in recent years, businesses have increased their spending on IT consulting, with a significant increase in the fraction of total spending they allocate to this item (Figure I.34).

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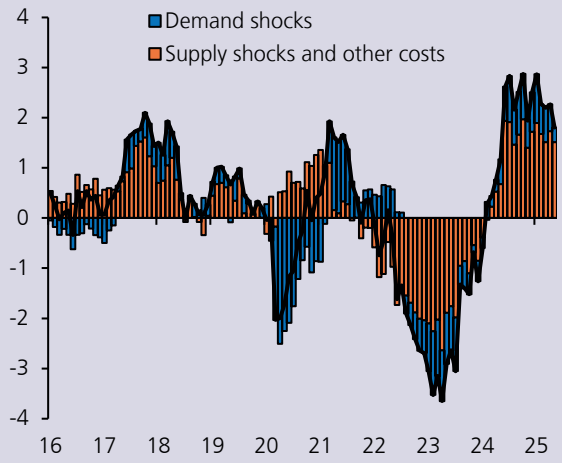
[4]/ A structural vector autoregressive (SVAR) model is estimated that identifies labor supply and demand shocks with sign restrictions and time-varying coefficients, with real labor costs (ICL), formal and total salaried employment, and hours worked as endogenous variables, and minimum wage as an exogenous variable.

[5]/ There are different types of models that explain how an economy works and how different policy decisions affect it. Semi-structural SVAR models are based on historical data and certain theoretical rules to analyze how variables such as inflation or employment react to changes in, for example, interest rates. Conversely, structural general equilibrium models represent the economy at large and allow simulating how it would behave if conditions such as taxes or the price of the dollar were to change.

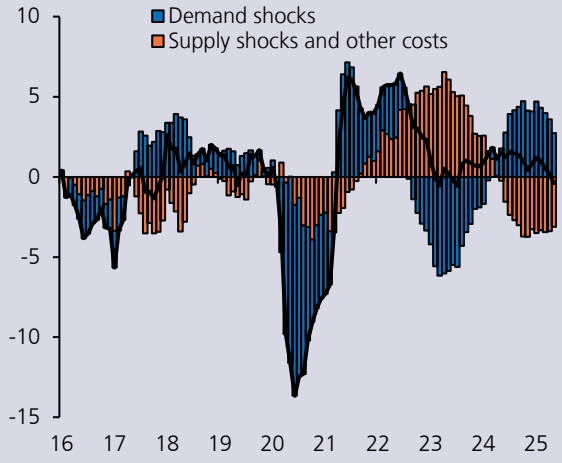
This network of relationships shows that the Chilean labor market is undergoing significant changes, with employment decisions increasingly focused on flexibility, efficiency, and retention. Even in contexts of economic recovery, employers have maintained a cautious stance toward hiring, prioritizing lean and adaptable structures.

FIGURE I.33 HISTORICAL DECOMPOSITION ACCORDING TO SVAR (1)

Labor cost index (ICL)
(annual change, percentage points)



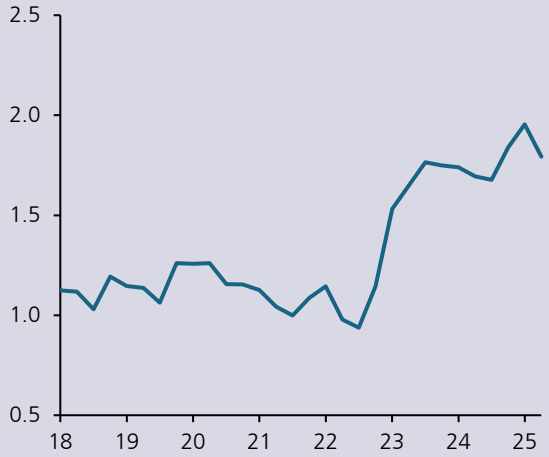
Formal salaried employment
(annual change, percentage points)



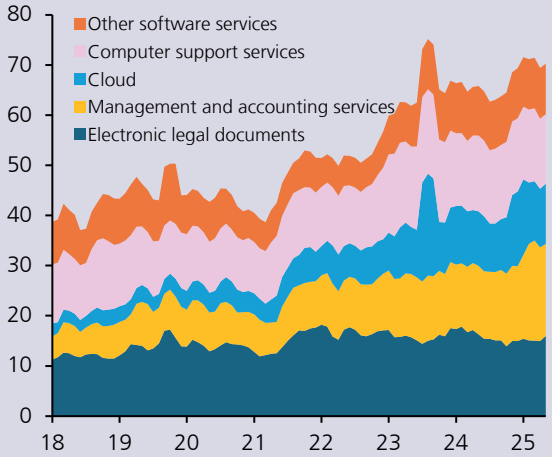
(1) Structural decomposition using an SVAR model that includes employment, hours, real ICL, and real minimum wage (exogenous variable), identifying labor supply and demand shocks with sign restrictions and time-varying coefficients. ICL and minimum wage are deflated by the CPI, taking into account the frequency of wage adjustments based on inflation. Supply shocks and other costs include changes in minimum wage. Variables are plotted as deviations from the model constants.
Source: Albagli *et al.* (2025) based on INE data.

FIGURE I.34

a) IT consulting spending (1)
(percent of total purchases)



b) IT consulting purchases details (2)
(billion pesos 2019, three-month moving average)



(1) Total excludes Retail and Wholesale Trade Activities, as well as Restaurants and Hotels. (2) Breakdown is performed based on the descriptions reported in electronic invoices. Categories were classified using natural language processing techniques and unsupervised learning algorithms. Excludes those descriptions that could not be classified.
Source: Albagli *et al.* (2025) based on administrative records of the SII.

Conclusions

Recent labor market developments are giving mixed signals, with weak job creation and the unemployment rate above its pre-pandemic levels, but at the same time with real labor costs growing above their historical average.

This box contains new quantitative and qualitative information suggesting that labor market behavior responds to multiple factors, including the impact of legislative measures —such as the minimum wage and the 40-hour workweek law— and adaptation to technological change, which may have accelerated in response to rising labor costs.

In any case, these results explain labor market movements in the short and medium term. In the long term, its behavior will depend on factors such as productivity, population growth, and new configurations of production processes in a context of adoption of new technologies.

II. FUTURE EVOLUTION OF MONETARY POLICY

The projections contained in the central scenario of this IPoM reflect improved prospects for domestic demand. This reflects second quarter figures that exceeded June forecasts, in terms of both investment and household consumption. Added to this is the new increase foreseen for investment in large-scale projects, as well as the positive evolution of some fundamentals of private spending in recent months. Meanwhile, and as expected, several of the temporary factors that had boosted activity at the beginning of the year have dissipated. This, combined with the factors mentioned above, has led to a revision of the GDP growth range for this year, which has been adjusted upward at the lower end, from 2-2.75% to 2.25-2.75%. For 2026, it rises to 1.75-2.75% (1.5-2.5% in June), while for 2027 it remains at 1.5-2.5%. Headline inflation has evolved in line with expectations. However, core inflation—the CPI excluding volatile items—has been higher than expected which, combined with stronger domestic spending and high cost pressures, raises the projection for this component of inflation between the end of this year and the beginning of next year. Headline inflation is expected to converge to the target of 3% during the third quarter of 2026[1]/. This adjustment comes amid an external scenario in which several sources of uncertainty remain, including doubts concerning the unfolding and impact of the trade conflict. Meanwhile, short-term financial conditions have improved as the market has internalized a more expansionary monetary policy in the United States by the Federal Reserve (Fed). The Board will evaluate the next movements of the MPR being attentive to the evolution of the macroeconomic scenario and its implications for inflation convergence. In the current conditions, the risk of greater inflation persistence calls for gathering more information before continuing the process of leading the MPR to converge to its neutral range.

ACTIVITY AND DEMAND PROJECTIONS IN THE CENTRAL SCENARIO

THE DOMESTIC SCENARIO

Second-quarter 2025 data showed a stronger-than-expected dynamism in domestic demand compared to the June forecast. Investment performance stood out—particularly in machinery & equipment—as did private consumption. This occurred in a context in which, as anticipated, the temporary factors linked to goods exports and tourism that gave a greater boost to activity at the beginning of this year have been dissipating (Chapter I).

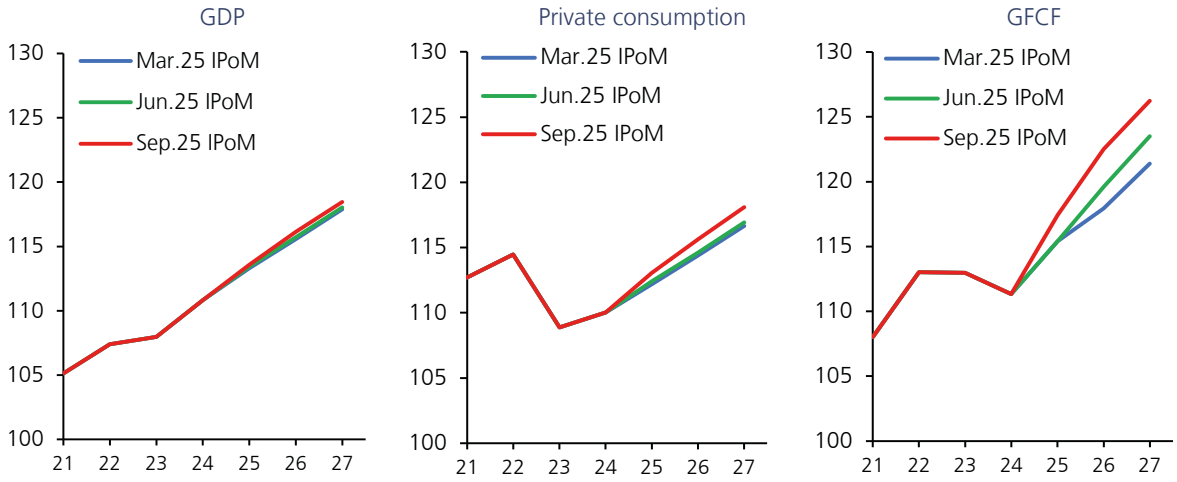
Projected domestic demand growth is raised for this year and next, particularly for Gross Fixed Capital Formation (GFCF). This is due to, among other factors, the boost from big investment projects, strong growth in capital goods imports, improved credit conditions for businesses, and an improvement in business confidence compared to previous years. . As a result, in the central scenario of this IPoM, GFCF would grow by 5.5% in 2025, 4.3% in 2026, and 3.1% in 2027 (3.7; 3.6; and 3.3% in June, respectively) (Figure II.1 and Table II.1).

Although to a lesser extent, private consumption growth is also adjusted up, especially for this year (2.7% versus 2.2% in June). This is largely justified by the improved performance in the second

[1]/ The central projection scenario of this IPoM does not consider the August CPI figure, which was released after the statistical cutodd date of the Report. However, the figure was broadly in line with forecasts.

quarter (Chapter I). Going forward, the pace of expansion in private consumption is not expected to differ significantly from the June forecast—moderating from recent quarters—given the mixed evolution of its fundamentals. Thus, growth rates of 2.3 and 2.1% are projected for 2026 and 2027, respectively (2% for both years in the June IPoM) (Figure II.1 and table II.1).

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



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

TABLE II.1 ECONOMIC GROWTH AND CURRENT ACCOUNT

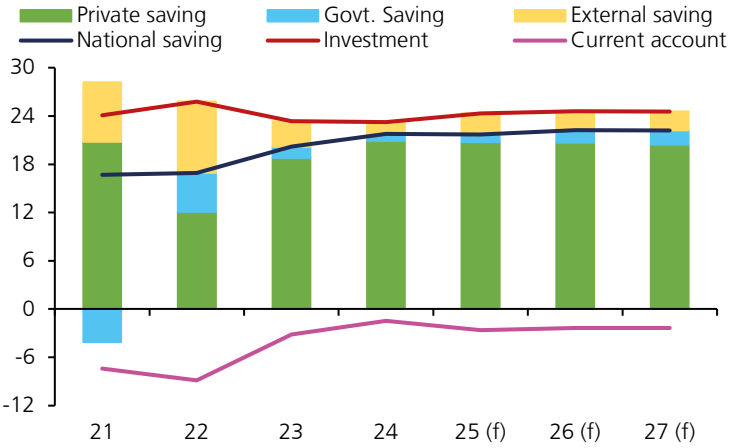
	2024	2025 (f)	2026 (f)	2027 (f)
		(annual change, percent)		
GDP	2.6	2,25-2,75	1,75-2,75	1,5-2,5
National income	2.8	3.1	3.0	2.5
Domestic demand	1.3	4.3	2.6	2.3
Domestic demand (w/o inventory change)	0.7	3.6	2.8	2.6
Gross fixed capital formation	-1.4	5.5	4.3	3.1
Total consumption	1.4	3.0	2.4	2.4
Private consumption	1.0	2.7	2.3	2.1
Goods and services exports	6.6	4.6	1.8	2.9
Goods and services imports	2.5	10.3	3.2	3.7
Current account (% of GDP)	-1.5	-2.6	-2.4	-2.4
Gross national saving (% of GDP)	21.8	21.7	22.2	22.2
Gross national investment (% of GDP)	23.2	24.3	24.6	24.6
GFCF (% of nominal GDP)	23.5	23.9	24.3	24.4
GFCF (% of real GDP)	23.2	23.8	24.3	24.5
		(US$ million)		
Current account	-4,853	-9,300	-9,100	-9,500
Trade balance	21,033	19,100	20,100	21,500
Exports	99,165	104,900	108,400	113,900
Imports	78,133	85,800	88,300	92,400
Services	-9,149	-8,600	-9,300	-10,100
Rent	-17,000	-20,100	-20,200	-21,300
Current transfers	264	300	300	400

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

For 2025, the central scenario incorporates fiscal spending growth as described in the Public Finance Report (IFP) for the second quarter of this year. Thereafter, the committed expenditures indicated in said report are considered.

The current account deficit is expected to be bigger than what was predicted in June, due to higher spending on tradable goods (around 2.5% on average in 2025-2027 versus 1.9% in the previous IPoM). This reflects the weaker outlook for the goods trade balance, due to both lower exports and higher imports. In mining shipments, the change is due to lower estimated production as a result of an accident at El Teniente mining company, delays in the execution of certain projects, and lower ore grades at some copper deposits. However, higher prices forecast for mining products other than copper point to a greater contribution from mining exports in the coming quarters. In non-mining exports, the revision of industrial and agricultural shipments, affected by lower prices, stands out. In imports, the upward revision responds to the higher demand forecast for tradable goods, particularly machinery & equipment. Thus, in the central scenario, projected external savings are increased, coupled with slightly higher private savings in 2026-27. Thus, the improved outlook for domestic demand is consistent with higher expected gross national disposable income and higher external savings (Table II.1 and Figure II.2).

FIGURE II.2 CURRENT ACCOUNT: SAVINGS AND INVESTMENT (1)
(percentage of annual GDP)



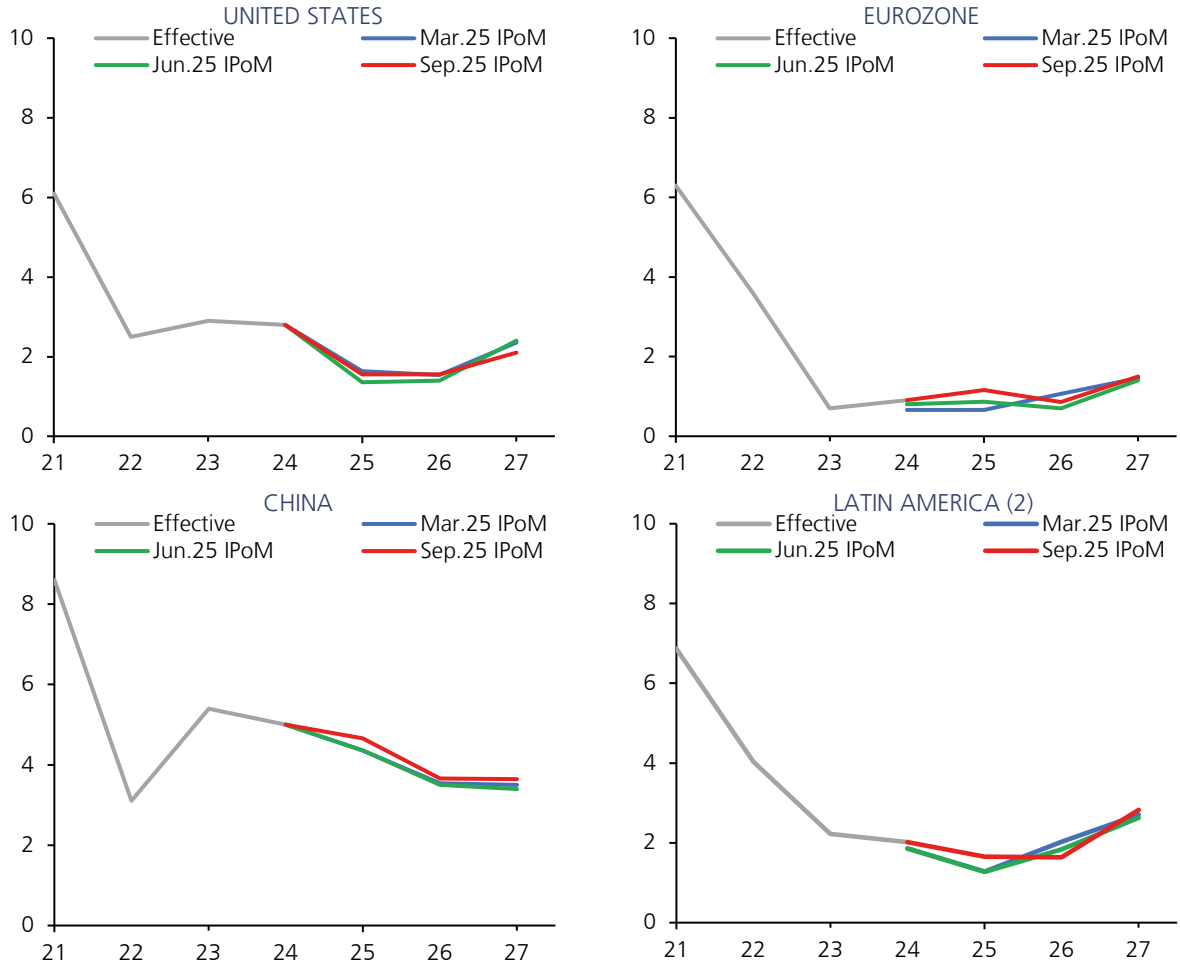
(1) The government savings component considers as actual data up to 2024 the general government's balance sheet; the government savings of the central government's balance sheet is used for the 2025-2027 forecast.
(f) Forecast.
Source: Central Bank of Chile.

Overall, the projection for activity is also revised upward, although not as much as domestic demand. In 2025, GDP is expected to grow between 2.25-2.75%, which raises the lower end of the June range (between 2.0-2.75%). For 2026, the projected growth range is adjusted to 1.75-2.75% (1.5- 2.5% in June), while for 2027 it remains at 1.5-2.5%. These changes are mainly explained by the outlook for non-mining GDP, where some sectors will be boosted by the higher growth expected in private spending. It also considers the weaker short-term outlook for the mining sector, mainly due to lower copper production following the El Teniente accident and the delay in the scaling-up phase of some structural projects (Chapter I) (Figure II.1 and Table II.1).

THE INTERNATIONAL SCENARIO

On the external front, the projected growth of trading partners has been revised slightly upward. As a result, the projection rises marginally (slightly above 2.5% on average for the period 2025-2027). Although the tariff increases are still expected to have negative effects on the global economy, the projections are based on higher fiscal spending expectations in a number of economies and more favorable short-term financial conditions. Market growth projections for this year show a rebound in some countries; however, on aggregate there are no significant changes with respect to the June IPoM (Chapter I) (Figure II.3 and Table II.4).

FIGURE II.3 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.2 WORLD GROWTH (1)
(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	2.8	2.6	3.0
World GDP at market exchange rate	3.3	3.1	2.9	2.3	2.1	2.6
Trading partners	3.9	3.5	3.3	2.8	2.4	2.8
United States	2.4	2.9	2.8	1.6	1.6	2.1
Eurozone	1.4	0.7	0.9	1.2	0.9	1.5
Japan	1.2	1.2	0.1	1.0	0.3	0.6
China	7.7	5.4	5.0	4.7	3.7	3.6
India	6.7	9.2	6.5	5.6	5.6	6.4
Rest de Asia	4.5	3.1	4.0	3.0	3.0	3.4
Latin America (excl. Chile)	1.8	2.2	2.0	1.7	1.6	2.8
Commodity exp.	2.2	1.4	1.2	1.0	1.6	2.0

(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.

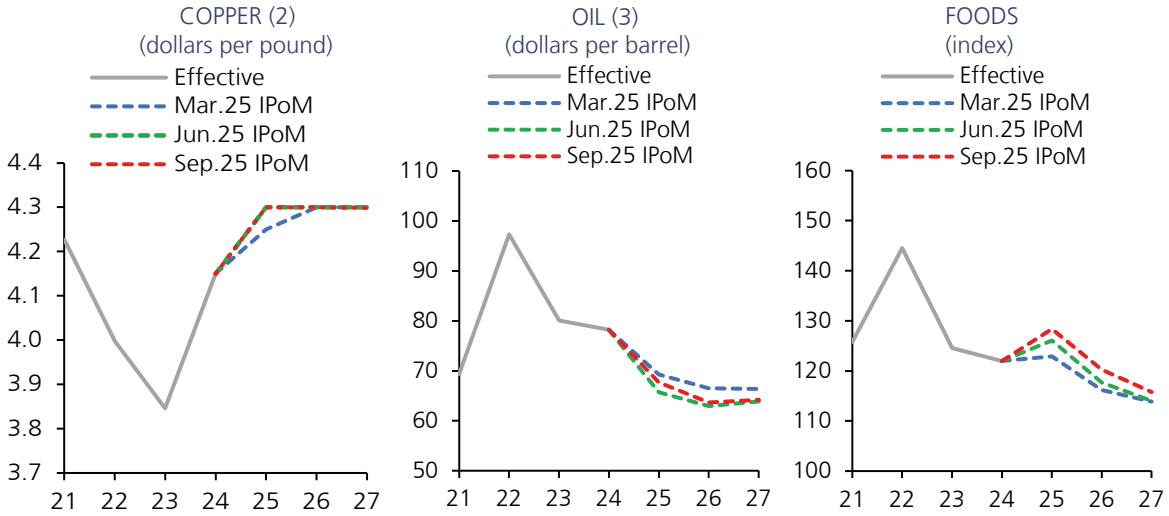
An increase in the terms of trade is still anticipated over the three-year period 2025-27. The projection for the price of copper remains around US$4.3 per pound between 2025 and 2027, consistent with unchanged fundamentals and balanced risks regarding its future evolution. The estimated price per barrel of oil (WTI-Brent average) has been adjusted slightly upward for this year, to US$68 (US$66 in June). However, the price is still expected to fall to US$64 in 2026-27, which will reduce the projected variation in local fuel prices during those years. International food prices (FAO) are projected to be slightly higher this year and the following two, although they are expected to begin declining from the second half of 2025 (Chapter I) (Table II.3 and Figure II.4).

TABLE II.3 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	3.3	1.6	1.1
External prices (in US$)	0.6	-0.2	-0.7	1.8	1.8	1.2
			(levels)			
LME copper price (US$cent/pound)	306	385	415	430	430	430
WTI oil price (US$/barrel)	72	78	76	66	62	62
Brent oil price (US$/barrel)	80	83	81	70	65	66
Gasoline parity price(US$/m3) (1)	610	721	660	578	511	511
US Federal Funds Rate (%) (2)	0.7	5.2	5.3	4.4	3.7	3.4

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

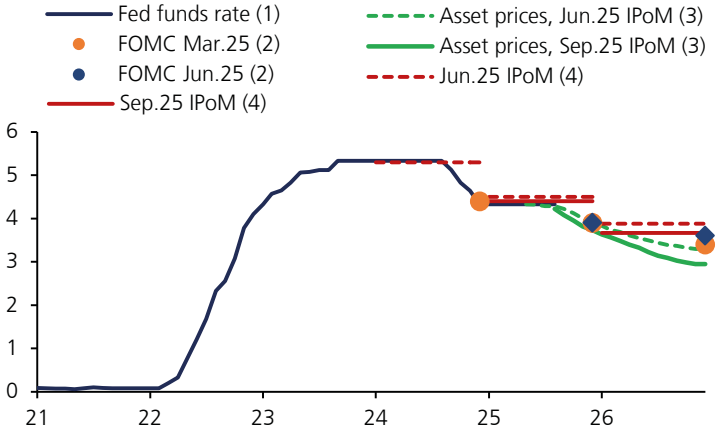
FIGURE II.4 COMMODITY PRICES FORECASTS (1)



(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.

Short-term external financial conditions are expected to become more favorable than in June, mainly because of the change in expectations about the Fed's monetary policy. The central scenario assumes that the fed funds rate will be reduced twice in the rest of this year and twice more during 2026 (one and three, respectively, were assumed in the last IPoM (Figure II.5). However, there is high uncertainty regarding this assumption, given the inflationary risks that are present in the United States (Box I.2).

FIGURE II.5 EVOLUTION AND FORECASTS FOR THE FED FUNDS RATE
(percentage points)

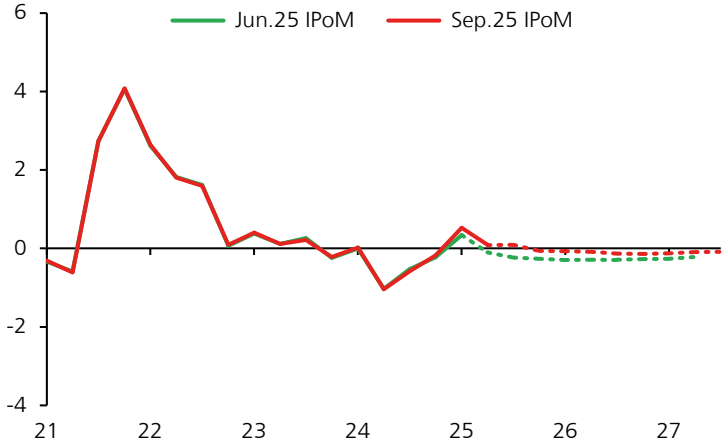


(1) Actual Fed funds rate. Considers information up to August 2025.
(2) Forecast of Federal Open Market Committee (FOMC) at respective meeting.
(3) Based on statistical cutoff dates of respective Monetary Policy Report (IPoM).
(4) Annual average for the upper range of Fed funds rate in 2024, 2025 and 2026, according to central scenario of each IPoM.
Sources: Bloomberg and U.S. Federal Reserve.

THE ACTIVITY GAP AND CONVERGENCE OF INFLATION TO THE TARGET

A somewhat wider output gap is expected than that estimated in the previous IPoM (Figure II.6). This factors in the improved performance of non-mining GDP in the short term, which provides a higher starting point for activity. It also reflects the more favorable outlook for domestic demand, due to revisions to both GFCF and private consumption. All this translates into an activity gap that would be slightly positive in the first part of 2025, which is expected to converge to its equilibrium level during this year and to remain in the vicinity throughout the projection horizon.

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

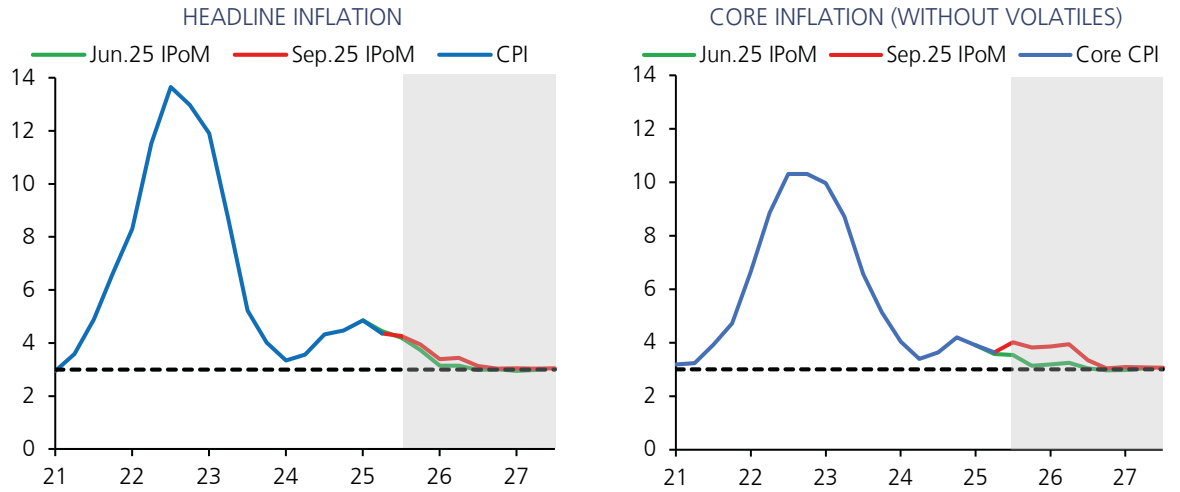


(1) Dotted lines show forecast.
(2) Forecast assumes structural paramenters updated in September 2024 Monetary Policy Report (IPoM) (trend GDP) and June 2025 IPoM (potential GDP).
Source: Central Bank of Chile.

With regard to inflation, the central scenario foresees that, between the end of this year and the first half of 2026, the core component will show higher annual variations than those projected in June. This is based on higher-than-expected figures in recent months, improved private spending performance, and a real exchange rate (RER) that is more depreciated than anticipated in June, in the context of still high wage pressures. During 2026, core inflation would decline toward 3% as the activity gap closes, private consumption resumes growth in line with the economy's trend, the RER appreciates, and core CPI rates fluctuate around levels consistent with the target.

Meanwhile, the volatile component is expected to follow a trajectory below that anticipated in June. Thus, headline inflation would converge to the 3% target during the third quarter of 2026, to hover around that value from then on. Compared to the previous IPoM, the volatile component of the CPI is expected to have a lower impact over the projection horizon, in line with a partial reversal of fruit and vegetable prices, lower fuel prices, and the appreciation of the RER contemplated in the central scenario. Additionally, the inflationary impact of the electricity tariff unfreezing process is expected to fade. All the foregoing leads to project that total inflation will converge to the target in the third quarter of 2026. In this context, market expectations are for inflation to stand at 3% in the two-year horizon (Chapter I) (Figure II.7 and Table II.4).

FIGURE II.7 INFLATION FORECAST (1)
(annual change, percent)



(1) Prior to 2025, the headline inflation series reflects the 2023 reference basket and the Central Bank of Chile splice. Gray area, as from third quarter 2025, shows forecast.
Sources: Central Bank of Chile and National Statistics Institute (INE).

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

	2024	2025 (f)	2026 (f)	2027 (f)
Average CPI	3.9	4.4	3.2	3.0
December CPI	4.5	4.0	3.0	3.0
CPI in around 2 years (2)				3.0
Average core CPI	3.8	3.8	3.5	3.1
December core CPI	4.3	3.7	3.1	3.0
Core CPI around 2 years (2)				3.1

(1) Prior to 2025, the headline inflation series reflects the 2023 reference basket and the Central Bank of Chile splice.
(2) Inflation forecast for the third quarter of 2027.
(f) Forecast.
Sources: Central Bank of Chile and National Statistics Institute (INE).

MONETARY POLICY STRATEGY: THE CENTRAL ESCENARIO AND SENSITIVITIES

In the central scenario of the September IPoM, the foreseen path of headline inflation is similar to that of the previous report, but with core inflation expected to be higher over the next twelve months than what was projected in June. Since this CPI component tends to be more persistent, this emphasizes the need for close monitoring of its evolution and its fundamentals.

The Board will evaluate the next movements of the MPR being attentive to the evolution of the macroeconomic scenario and its implications for inflation convergence. In the current conditions, the risk of greater inflation persistence calls for gathering more information before continuing the process of leading the MPR to converge to its neutral range. The Board also reaffirms its commitment to conducting monetary policy with flexibility, so that projected inflation stands at 3% over the two-year horizon.

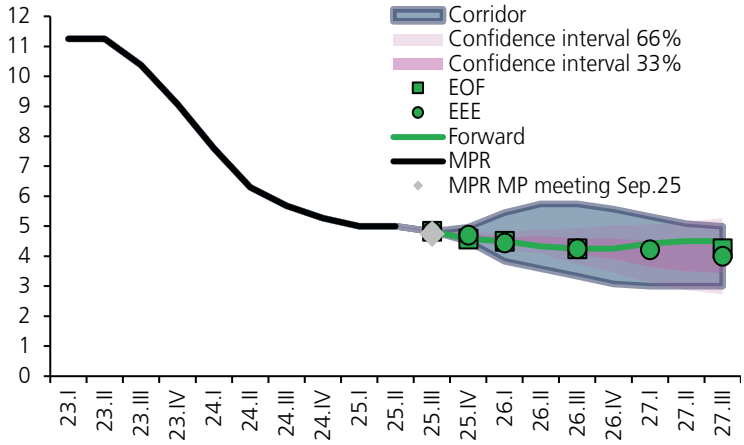
The MPR corridor includes sensitivity scenarios—other than the central scenario and with a significant probability of occurrence—in which monetary policy could follow a different path (figures II.8 and II.9).

The sensitivity scenario associated with the upper bound of the MPR corridor is tied to local economy, especially the evolution of expenditure. A scenario in which economic activity and domestic demand are more dynamic than expected would reinforce agents' expectations and provide an additional boost to spending, in a context where nominal wages continue to grow above their historical averages. All of this would increase inflationary pressures.

The lower bound reflects a situation in which the external outlook worsens, with negative effects on the global and local economies. An escalation of trade tensions or a deterioration in global financial conditions cannot be ruled out, with interest rate hikes, stock market downturns, and currency depreciation in emerging economies. All this would negatively affect economic expectations and domestic spending, with a significant reduction in inflationary pressures.

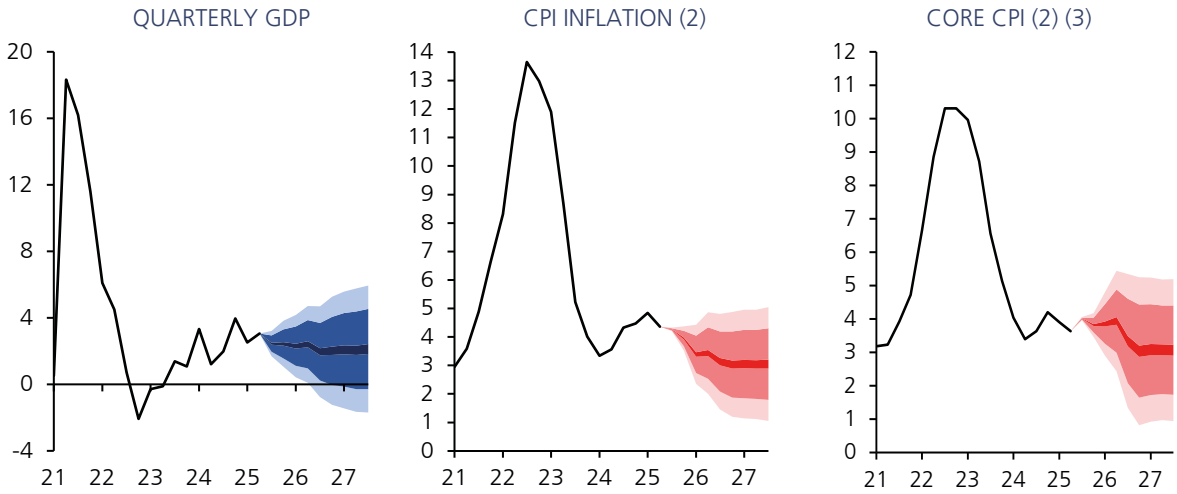
As in recent IPoMs, risk scenarios continue to be linked to external developments and encompass various sources of tension. A reversal of global financial conditions continues to be a significant risk. Although indicators of global uncertainty have fallen from the highs of previous months, they remain above the levels of the last decade, and situations in which financial markets make an abrupt adjustment in risk premiums cannot be ruled out. This could be exacerbated by the deterioration of the fiscal situation in several major economies and a fragile global geopolitical situation, considering the ongoing trade disputes and the persistence of conflicts and hotspots of military tension.

FIGURE II.8 MPR CORRIDOR (1)
(quarterly average, percent)



(1) The 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 August Economic expectations survey (EEE), the September pre-MP meeting Financial traders survey (EOF) and the quarterly average smoothed forward curve as of September 3. This is calculated by extracting the implicit MPR considering the forward curve over the overnight index swap (OIS) curve for up to 2 years, discounting the fixed rates of each maturity at the simple accrual of the OIS index. For the current quarter, the surveys and the forward curve consider the average of daily actual data and are completed with respective sources. Quarterly average considers working days in each quarter. Gray diamond corresponds to the MP decision of September 2025.
Source: Central Bank of Chile.

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) Prior to 2025, the headline inflation series reflects the 2023 reference basket and the Central Bank of Chile splice.
(3) Measured with the CPI without volatiles.
Sources: Central Bank of Chile and National Statistics Institute (INE).

ANNEX A:

Central Bank of Chile Balance Sheet

HISTORICAL EVOLUTION OF THE BALANCE SHEET

The performance of the economy, the financial system, and the policies adopted by the Central Bank of Chile (BCCh) affect the size and composition of its balance sheet. Looking at the last 15 years, the most significant changes in both assets and liabilities occurred between 2020 and 2024. These are mainly explained by the exceptional measures adopted by the Bank to mitigate the economic and financial effects of the Covid-19 pandemic[1]/.

Between 2020 and December 2023, the Bank's balance sheet nearly doubled, mainly due to the implementation of the three stages of the Credit Facility Conditional on the Increase of Loans (FCIC[2]/). After it expired, assets returned to a similar level to that of 2019 (figure A.1). These measures amounted to a combined C$28.966 billion, equivalent to 12% of GDP. This facility expired[3]/ in its entirety in 2024 (C$18.171 billion on April 1st and C$10.759 billion on 1 July), and with it, the size of assets, in terms of GDP, returned to close to its 2019 level.

During that time, the evolution of liabilities was equivalent, mainly because of the higher issuance of Discountable Promissory Notes by the BCCh (PDBC), which later dropped after they matured last year (figure A.1). These instruments were necessary to neutralize (or sterilize[4]/) the monetary effect resulting from the expansion of the balance sheet in 2020 and 2023 and then with its reduction as a result of net maturities during 2024.

The Central Bank's average net worth between 2010 and 2025 was -1.7% of GDP (figure A.2), explained by its balance sheet's composition[5]/, plus the local and global economic and financial conditions. On the one hand, Chile is a small economy that is financially integrated with the rest of the world, which is why it maintains a stock of international reserves (assets) that contributes to strengthening the BCCh's policy framework and, therefore, to meeting the objectives set out in its Constitutional Organic Law (LOC). In order for international reserves to meet capital preservation and liquidity requirements, they are invested in bonds issued by countries that, on average, enjoy high credit ratings. In practice, this means that the rate of return obtained from investing the reserves tends to be lower than the interest paid on the debt issued by the BCCh to finance those reserve assets. This difference between the interest rate on assets and liabilities explains, in part, the resulting net worth.

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[1]/ For details, see Exceptional measures / Foreign exchange intervention and liquidity.

[2]/ Between 2020 and 2021, the FCIC I, II, and III programs were implemented, consisting of loans to banks with terms of four and two years (maturing on 1 April and 1 July, 2024) as a support measure to enable banks to make loans with less stringent conditions to sectors of the economy with liquidity problems resulting from the Covid-19 crisis.

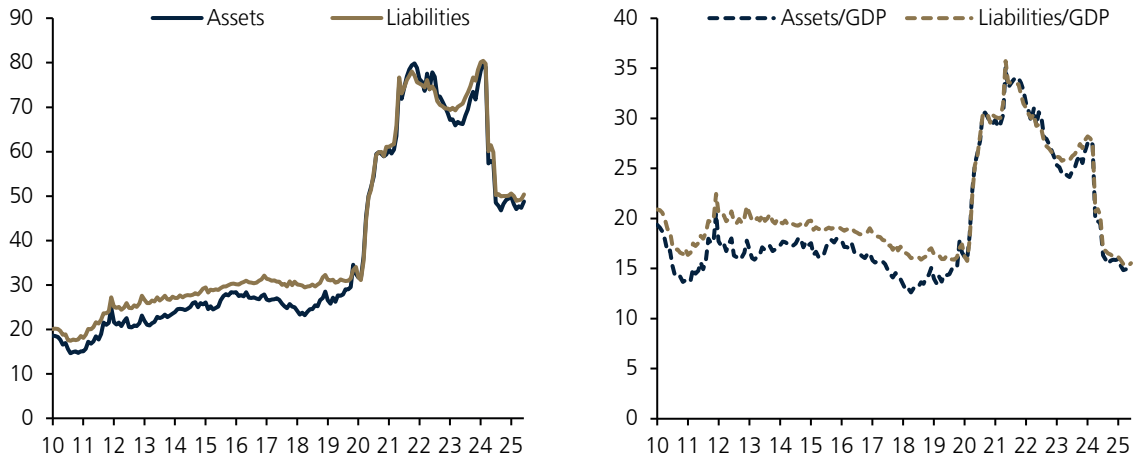
[3]/ More information at: Central Bank reports completion of FCIC maturity and payment process.

[4]/ Sterilization refers to the measures taken by the Bank to prevent the injection of liquidity or pesos into the economy, resulting from the expansion of BCCh assets (bank credit, purchase of local assets, or purchase of foreign currency), from having inflationary effects. To do so, the Bank withdraws excess liquidity in pesos by issuing debt.

[5]/ In the usual composition of assets and liabilities on the Bank's balance sheet, assets consist mainly of international reserves invested in financial instruments denominated in foreign currency, while liabilities consist largely of debt instruments issued by the BCCh and denominated in local currency (pesos and, to a lesser extent, UFs).

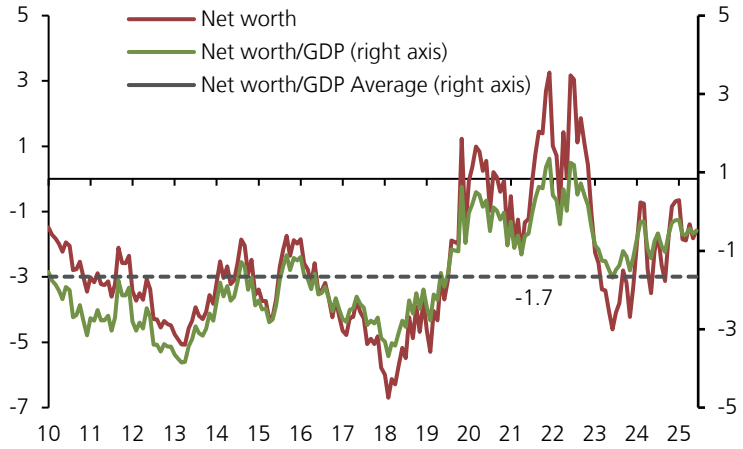
Between 2022 and 2023, the Bank had positive net worth, primarily due to the strengthening of the US dollar, the main currency for its international reserves. As the dollar appreciates, it generates a positive result for the BCCh, since the same amount of reserves translates into a greater amount of pesos, which is the local unit of account. In other words, the variation in the Bank's net worth is also affected by the performance of the currencies of the assets relative to the local one.

FIGURE A.1 EVOLUTION OF THE BCCH'S ASSETS AND LIABILITIES
(billions of Chilean pesos; percent of GDP)



Source: Central Bank of Chile.

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



Source: Central Bank of Chile.

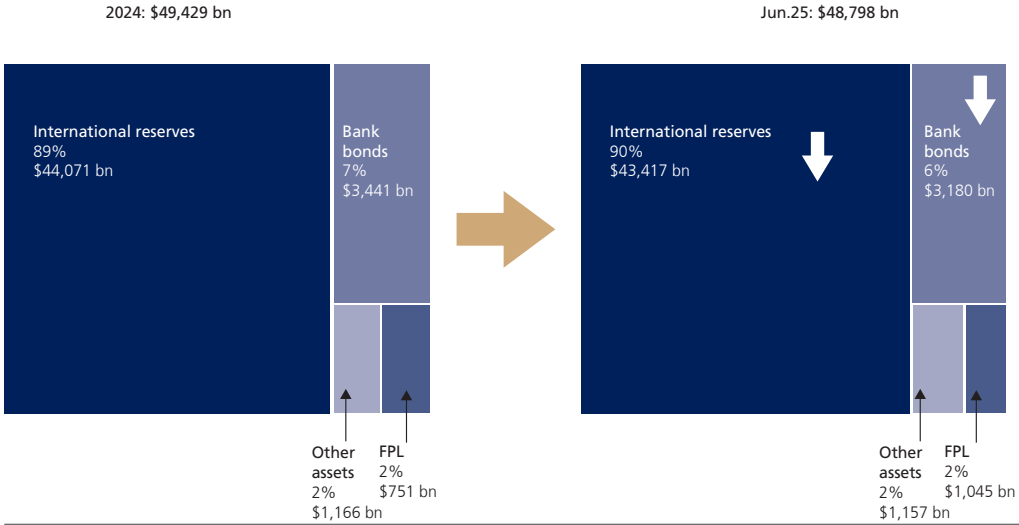
COMPOSITION AND RECENT EVOLUTION OF THE BALANCE SHEET

Compared to the end of 2024, the first half of this year saw a decrease in the size of the balance sheet. Compared to the end of 2024, the first half of this year saw a decrease in the size of the balance sheet. During this period, assets fell by C$632 billion, from 15.9% to 15.4% of GDP, mainly due to the lower peso valuation of international reserves and the maturity of local banks' bonds[6]/ that the BCCh maintains since 2020. Meanwhile, liabilities, despite a marginal increase of C$270 billion (figure A.3), fell from 16.1% to 15.9% in terms of GDP (table A.1).

The decline in assets during the first half of this year was mainly explained by a lower valuation in pesos of international reserves, which are held in foreign currency (figure A.4). Between the end of 2024 and June 2025, the US dollar depreciated by 5.7% against the peso, the main factor affecting the loss in value of international reserves by 0.8% of GDP (C$655 billion)[7]/. For their part, bank bonds took a drop of 0.1% of GDP (C$261 billion, with maturities of C$355 billion in the first quarter and a valuation increase of C$94 billion), and a greater use of monetary policy instruments[8]/, which rose by 0.1% of GDP (C$294 billion).

As a counterpart, liabilities measured in pesos saw slight changes. However, there is a somewhat greater change in its composition compared with assets, with an increase in the stock of promissory notes with the secondary market[9]/ of 0.3% of GDP (C$1.727 trillion), and decreases in policy instruments and other liabilities with banks[10]/ by 0.5% of GDP (C$1.36 trillion) and in the monetary base by 0.3% of GDP (C$103 billion). This, in turn, results in an increase in the proportion of interest-bearing liabilities[11]/ of 0.4% (figures A.3 and A.4).

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



[6]/ In the context of the Covid-19 crisis, two bank bond purchase programs were carried out in 2020 and a coupon reinvestment program in 2021. In 2021, the maximum stock of bank bonds was close to C$6.6 trillion, which has been decreasing as these instruments mature. At the end of June 2025, the remaining stock was C$3.18 trillion, and given that the portfolio will be maintained until maturity, the total exhaustion of this stock will occur in 2046.

[7]/ It should be noted that international reserves, measured in dollars, increased by $1.977 billion during the first half of 2025.

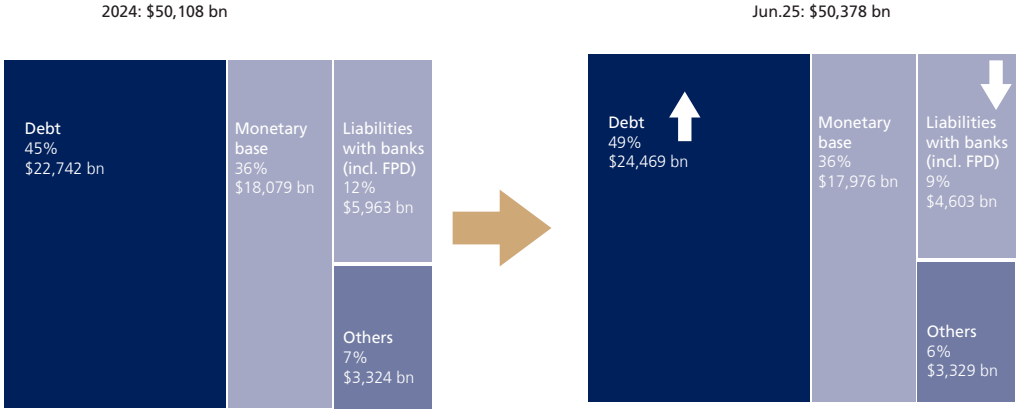
[8]/ Corresponding to the use of the Standing Liquidity Facility (FPL).

[9]/ These are debt instruments issued by the BCCh, currently consisting of Central Bank's Discountable Promissory Notes (PDBC) and bonds with coupons in UF (BCU).

[10]/ Corresponds to the sum of liabilities with banks, consisting of the Permanent Deposit Facility (FPD) in policy instruments with banks and bank deposits, mainly for constituting foreign currency reserves in other liabilities with banks.

[11]/ Consisting of PDBC, BCU, and FPD.

Liabilities (billions of Chilean pesos)



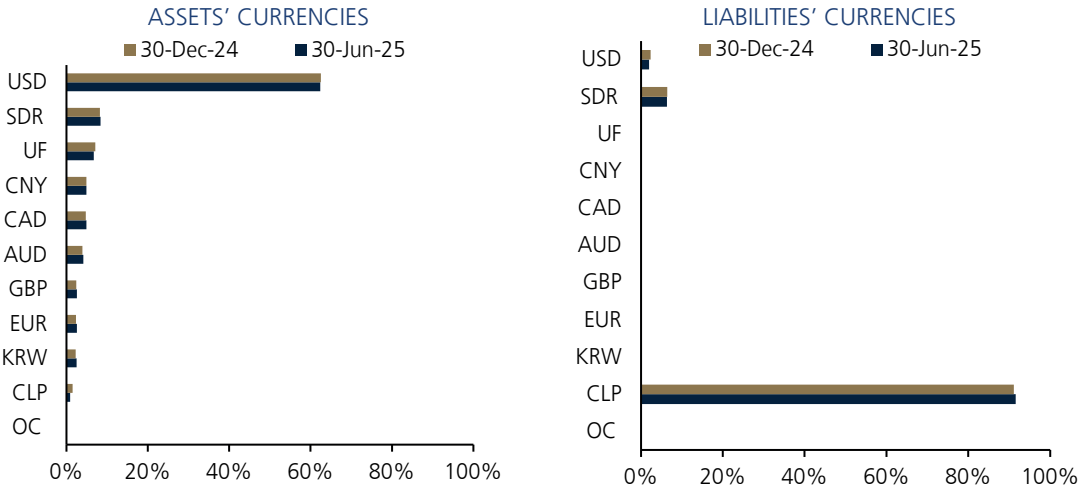
FPL: Standing Liquidity Facility
FPD: Permanent Deposit Facility
Note: White arrows indicate whether the entry rose or fell from the close of 2024.
Source: Central Bank of Chile.

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

	2021	2022	2023	2024	Jun.25	2025 (f)
ASSETS	**32.9**	**2.0**	**26.7**	**15.9**	**15.1**	**15.8**
International reserves (1)	18.2	12.8	14.5	14.1	13.4	14.2
Fiscal promissory notes and other loans to government	0.1	0.1	0.1	0.1	0.1	0.1
Monetary policy instruments (2)	12.1	11.0	10.3	0.2	0.3	0.3
Bank bonds (3)	2.3	1.9	1.5	1.1	1.0	0.9
Other assets	0.1	0.3	0.3	0.3	0.3	0.3
LIABILITIES	**31.6**	**26.4**	**27.8**	**16.1**	**15.5**	**16.1**
Promissory notes with secondary market	17.9	14.4	14.5	7.3	7.5	8.4
Policy instrument with banks	1.9	3.6	5.1	1.5	1.1	1.0
Other liabilities with banks	1.5	0.6	1.1	0.4	0.3	0.3
Other liabilities except monetary base (4)	1.3	1.1	1.1	1.1	1.0	1.0
Monetary base	9.0	6.7	6.0	5.8	5.5	5.4
NET WORTH (A+B+C)	**1.4**	**-0.4**	**-1.2**	**-0.2**	**-0.5**	**-0.4**
A. Initial capital	-1.0	0.7	0.1	-1.0	0.0	-0.1
B. Net results	2.4	-1.1	-1.2	0.7	-0.5	-0.3
Non-financial	-0.1	-0.1	0.0	0.0	0.0	0.0
Net interest (5)	-0.1	-1.6	-1.7	-0.4	0.0	0.0
Due to exchange rate and UF variation	2.5	0.5	0.5	1.1	-0.4	-0.2
C. Capital contribution	0.0	0.0	0.0	0.0	0.0	0.0
Payable position in foreign currency (6)	15.4	11.4	12.1	12.9	12.3	13.0

(1) International reserves as a percent of GDP, measured in Chilean pesos, may present marginal difference with other measures in dollars. (2) Until 2023, includes Credit Facilities Conditional on the Increase of Loans (FCIC I, II and III) and Liquidity Credit Line (LCL). (3) In 2021, includes spot purchase and forward sale transactions (CC-VP) of bank bonds. (4) Includes other foreign liabilities (mainly SDR allocations with the IMF). (5) Difference between interest earned on investments and monetary policy instruments under assets and interest paid on debt certificates and monetary policy instruments under liabilities. (6) Assets minus liabilities payable in foreign currency. (f) Forecast. Source: Central Bank of Chile.

FIGURE A.4 CHANGES IN CENTRAL BANK OF CHILE CURRENCY COMPOSITION OF ASSETS AND LIABILITIES (1)
(percent of total assets and liabilities)



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

NET WORTH EVOLUTION

During the first half of 2025, the net worth decreased by 0.3% of GDP (C$902 billion), closing June at a negative value of 0.5% of GDP (-C$1.58 trillion), mainly explained by negative results associated with changes in currency parities. The BCCh's net worth is composed of initial capital and other reserves of -C$74 billion (0.0% of GDP), plus a negative net result for the year of C$1.506 billion (0.5% of GDP). The result for the first six months of the year was explained by negative results associated with changes in currency parities (foreign currencies and the inflation-indexed unit of account UF) of C$1.41 trillion, net interest payments of C$40 billion associated mainly with the issuance of short-term debt, and non-financial costs of C$58 billion. Part of the results for the period were also explained by the remaining assets from the special measures adopted by the Bank between 2020 and 2021, including the stock of bank bonds in local currency and the stock of NDFs (Non-Deliverable Forward)[12]/. Said results amount to a combined negative amount of C$63 billion (table A.2).

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

	Current stock (4)	Profit/Loss
Bank bonds (2)	3,108	-196
Stock (NDF) (3)	2,504	133
Total		-63

(1) Earnings or losses with an impact on net worth of special measures implemented by the Central Bank of Chile during first half of 2025. (2) Measures announced as of March 2020, due to financial tensions related to Covid-19 and withdrawals from pension funds. (3) Measure announced on July 14, 2022 as part of the exchange intervention program for the second half of 2022. The program managed to accumulate a maximum stock of US$9.11 billion. Between April and October 2023, a stock reduction program was implemented, which was suspended in October 2023, leaving a residual stock of US$2.676 billion, in effect to date. (4) Amounts correspond to current stocks at 30 June, 2025.
Source: Central Bank of Chile.

[12]/ Belonging to the exchange intervention program executed during the second half of 2022.

BALANCE SHEET FINANCIAL VARIABLES

The structure and size of the Bank's assets and liabilities did not change significantly during the period, nor did the gap between the rate of return on assets and liabilities change much: from +102 basis points (bp) at the end of 2024 to +89 bp at the end of June 2025. This decrease was related to the increase in the share of liabilities paying interest rates relative to the monetary base mentioned above and by a lower rate of return on international assets (table A.3).

In addition, the duration gap (or maturity) between assets and liabilities decreased by 1.3 months due to the shorter duration of international reserve instruments. The balance sheet's exposure to foreign currencies grew marginally by 1% in assets, as a result of the drop of local currency assets (table A.3).

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

	Jun.25		Dec.24	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Average yield rate (%)	4.0	3.1	4.1	3.1
Average duration (months) (1)	27.2	0.2	28.6	0.2
Foreign currencies (%)	92.4	8.4	91.4	8.8
Domestic currencies UF (%)	6.7	0.0	7.1	0.0
Domestic currencies CLP (%)	0.9	91.6	1.5	91.2

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

Source: Central Bank of Chile.

BALANCE SHEET PROJECTION FOR YEAR-END 2025

The short-term projection uses two main working assumptions: (i) the foreign exchange purchase program announced on 5 August, 2025, will be carried out as scheduled[13]/ and; (ii) as announced, the purchase of reserves is sterilized through the issuance of short-term debt. Respecto a los supuestos financieros, el escenario central contempla una disminución del costo de emisión de PDBC. As for the financial assumptions, the central scenario envisages a decrease in the cost of issuing PDBCs. With regard to the macroeconomic assumptions, the nominal GDP forecast for 2025 uses the projected values for real GDP growth and average inflation in the June 2025 IPoM.

Based on these assumptions, net interest payments are projected to reduce net worth by some 0.01% of GDP in 2025. Meanwhile, changes in the valuation of international reserves and local currency assets are projected to increase the net worth by 0.22% of GDP at year-end. Overall, the deficit would decrease to 0.4% of GDP in 2025, and it is estimated that the size of balance sheet assets would increase to 15.8% of GDP and liabilities to 16.1% of GDP (table A.1).

[13]/ For more information, see Central Bank of Chile launches international reserve accumulation program.

ANNEX B:

International reserves management

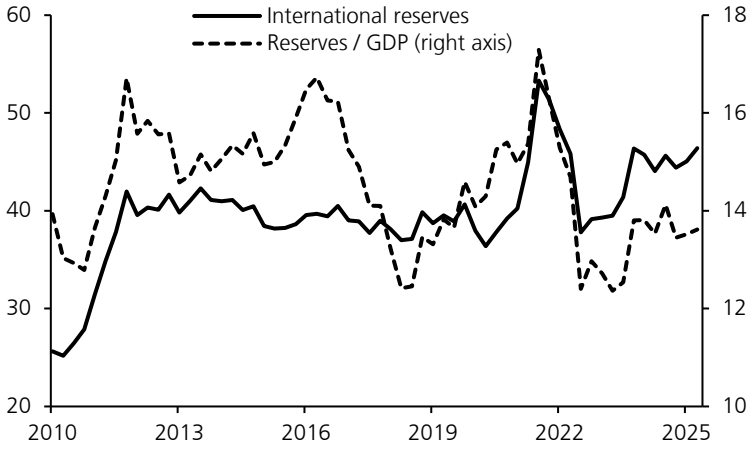
INTRODUCTION

International reserves are foreign investments held by the Central Bank of Chile (BCCh) to support compliance with the objectives associated with its constitutional mandate. For small economies that are financially integrated with the rest of the world—as is Chile—it is important to have, as a precautionary measure, a stock of reserves that allows them to cope with stressful situations. In general, these are of external origin and have the potential to affect the normal functioning of the financial system and generate costs for society. Having an adequate level of reserves is important, as it gives credibility to central banks and provides a robust framework for the implementation of their policies, among other benefits.

In Chile, the flexible exchange rate regime, consistent with the BCCh's inflation targeting framework, enables the exchange rate to absorb the various shocks facing the economy as the first adjustment variable. However, in exceptional circumstances, financial markets and economic agents may not be able to absorb these shocks and may operate under constraints, disrupting price formation. In such cases, the Bank's Board of governors would make use of international reserves.

At the end of June 2025, total international reserves of the BCCh amounted to $46.4 billion, the equivalent to 13.6% of GDP (Figure B.1).

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



Source: Central Bank of Chile.

While international reserves are the main source of liquidity in foreign currency, the Bank also has complementary sources of liquidity[1]/, of a precautionary nature, with the purpose of improving its foreign currency liquidity position to withstand possible shocks.

As of the end of June 2025, the International Monetary Fund (IMF's) Flexible Credit Line remains in effect for an amount of $13.8 billion, renegotiated by the BCCh in August 2024, as a precautionary and temporary measure (for two years). In addition to this backup, there is potential access to the Latin American Reserve Fund (FLAR) line for up to $1.25 billion and resources that could be obtained from the swap line maintained with the People's Bank of China, for the equivalent of $7 billion[2]/. Thus, complementary resources amount to $22.05 billion, or 6.5% of GDP.

In addition, the Bank has access to a liquidity facility (FIMA Repo Facility) that the U.S. Federal Reserve makes available to central banks and monetary authorities to access temporary liquidity in U.S. dollars against collateral in the form of U.S. Treasury bonds. This allows the BCCh to obtain liquidity in U.S. dollars for up to roughly $28 billion. Although this facility does not expand the size of the Bank's balance sheet, it does constitute an effective source of financing, as it allows it to obtain temporary liquidity in dollars without having to sell reserves.

In August 2025, the Bank announced a reserve accumulation program that involves purchases of up to $25 million per day for a period of three years, with the aim of changing the composition of the BCCh's international liquidity sources, thereby strengthening its own external position. The measure is part of a financial management strategy that aims to gradually replace part of the current foreign currency credit lines with the Bank's own international reserves. Moreover, it does not seek to modify financial conditions or affect the behavior of the foreign exchange market, but rather to strengthen the management of international reserves as part of the Bank's permanent functions in safeguarding financial stability[3]/.

RESERVES COMPOSITION

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

Also, the BCCh has current accounts so commercial banks, the General Treasury of the Republic, and public companies can deposit their foreign currency balances. The balances held in these current accounts constitute the main source of funds for the Cash portfolio. Consequently, their size does not depend solely on the decisions of the BCCh, which is why it is possible to see certain significant fluctuations in their size over relatively short time spans.

Finally, there is the Other assets portfolio, which includes various types of investments, including the IMF's Special Drawing Rights (SDRs), certified gold, and other smaller international assets.

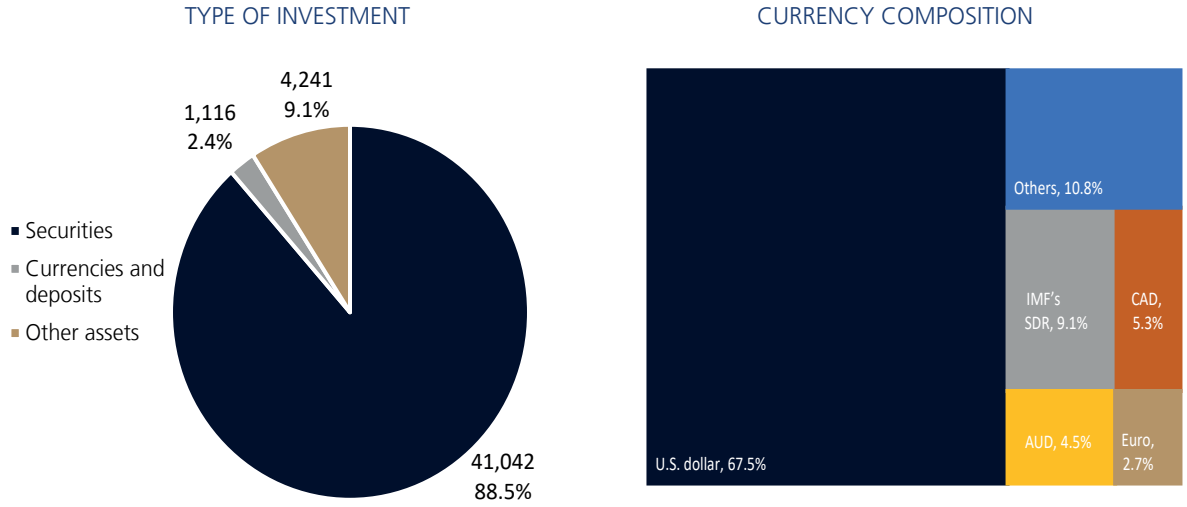
[1]/ Note that none of these supplementary sources has been used.

[2]/ That is, 50 billion renminbi.

[3]/ Further details on the reserve accumulation program can be found in the Press Release below.

As of June 30th, 2025, Investment portfolio resources totaled $41.08 billion (88.5%), Cash resources totaled $1.08 billion (2.3%), and Other assets totaled $4.24 billion (9.1%). These resources were invested in the categories of instruments and currencies detailed in Figure B.2.

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



Source: Central Bank of Chile.

MANAGEMENT OBJECTIVES

In order for international reserves to be available whenever needed, certain characteristics must be met. One of the most important ones is that they must be invested in safe financial instruments, with the aim of preventing capital losses in the long term. This characteristic is known as capital preservation. Likewise, these instruments are characterized by maintaining their value in the face of adverse financial shocks, as they are considered safe-haven assets. On the other hand, it is desirable that investments are converted into dollars rapidly, securely, and at a low transaction cost, which is associated with the attribute of liquidity. Additionally, in the long term, international reserves must be capable of yielding positive returns, which is known as the profitability objective.

To make sure these rules are followed, the reserves are invested according to certain guidelines. First, they can be invested in instruments allowed by the Bank's Constitutional Organic Law (LOC). This limits investments to foreign currencies, gold, or credit instruments, securities, or commercial paper issued or guaranteed by foreign governments, central banks, or international banking or financial institutions. In other words, stocks or other asset classes normally seen as riskier are not considered.

Second, reserves are invested in accordance with an investment policy approved by the BCCh Board. One of the central elements of this policy is the benchmark comparator for the investment portfolio. The benchmark is a theoretical portfolio containing specific instruments, currencies, and issuers that will serve to guide day-to-day investments. It also establishes the Bank's risk and return preferences. In order to maintain adequate risk control and management, rules, parameters, and limits are established for the investments that can be made.

Considering that the benchmark comparator is a central element of the investment policy, it is reviewed periodically to ensure that the resulting return and risk profile are consistent with the policy framework and the Bank's strategic objectives. Its design takes into account, among other variables, the potential liquidity needs of the BCCh and the financial effects on its balance sheet (Table B.1).

TABLE B.1 BENCHMARK STRUCTURE OF INVESTMENT PORTFOLIO

Issuing country	Share	Currency	Duration (1)	Risk rating (2)	Type of instrument
United States	74%	USD	1.9	AA+	Nominal and inflation-indexed bonds
Canada	6%	CAD	2.4	AAA	Nominal bonds
China	6%	RMB	4.1	A	Nominal bonds
Australia	5%	AUD	2.8	AAA	Nominal bonds
South Korea	3%	KRW	4.1	AA	Nominal bonds
Eurozone	3%	EUR	2.4	AAA/AA-/A- (3)	Inflation-indexed bonds
United Kingdom	3%	GBP	2.9	AA-	Inflation-indexed bonds
TOTAL	**100%**		**2.2**	**AA+/AA**	

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

If the Bank decides to use part of its international reserves to support compliance with its objectives, it will mainly require U.S. dollars, as this is the main foreign currency traded and used in our economy. This is one of the reasons, among others mentioned below, why the composition of the benchmark comparator considers a high proportion of that currency. The remaining currencies, which also meet the requirements of being reserve currencies, contribute to the diversification of market risks and the obtaining of returns, and are easily convertible to dollars.

The asset classes contained in the benchmark comparator, which guides investment decisions, correspond to fixed-income instruments issued by countries with high credit ratings. This has several implications. On the one hand, fixed-income instruments correspond to bonds, which tend to have positive returns in the long term because they pay periodic interest that can offset any declines in the value of the instruments due to changes in market prices. On the other hand, the fact that the bonds are issued by countries with high credit ratings is an indicator that the interest and principal on the reserve investments will be paid on schedule. Additionally, the instruments, issuers, and currencies in which the reserves are invested are traded in highly liquid markets, meaning they can be converted into dollars quickly, at a low cost, and at prices that are known and transparent to the market.

An additional feature of the benchmark comparator relates to the term of investments. The longer the term of a bond, the greater the market risk assumed, as its price will be more sensitive to changes in interest rates. The relationship described between the term of the instrument and the risk assumed is measured using a parameter known as duration. At the end of June 2025, the benchmark for international reserves had a duration of 2.2 years, which represents a limited market risk.

MANAGEMENT

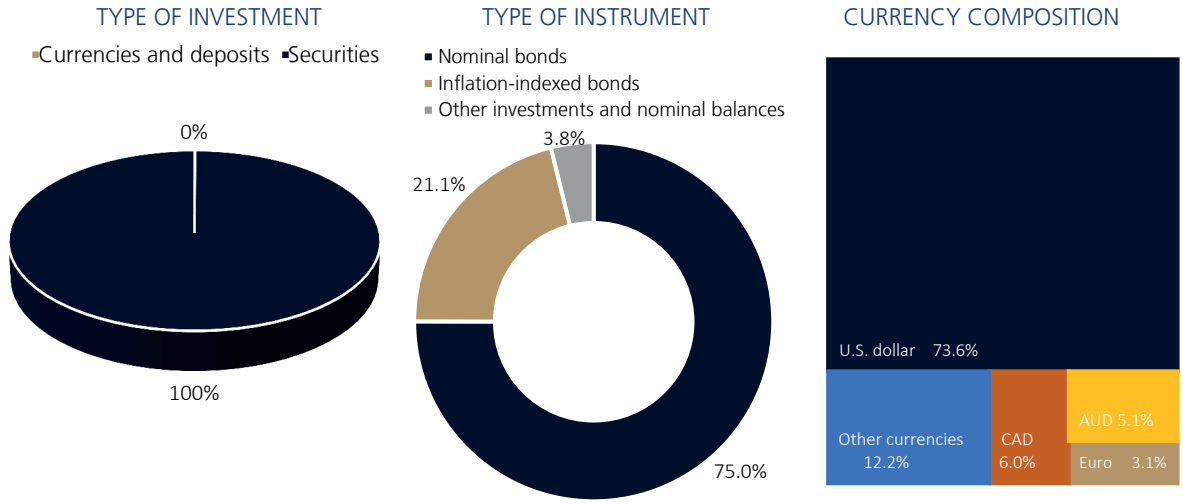
International reserves are managed on a daily basis using the investment structure established in the benchmark comparator as a guideline. With regard to this, deviations within well-defined limits for the parameters indicated above (issuers, currencies, instruments, and the like) may be assumed.

In addition to the various limits and restrictions that apply to these parameters, a risk budget known as tracking error is defined. This is a measure that limits the amount of overall risk that the portfolio manager can assume with respect to the benchmark. It is especially useful for limiting market risk, i.e., the level of risk associated with changes in the prices of the assets in which the portfolio invests. Thus, the higher the risk budget, the greater the deviations that the portfolio manager could assume in practice with respect to the benchmark. In turn, this means that the higher the risk budget, the further the returns obtained by the portfolio manager could deviate from the benchmark return.

In the case of the BCCh, considering the greater external risks faced by financial markets in recent years, the Board has established a limited risk budget of 40 basis points (bp) on average per month, thus leaving the risk contained in the benchmark comparator as the main source of risk assumed by the management of international reserves. In practical terms, this means that, with a certain level of confidence and within a one-year period, the return obtained by the portfolio manager is expected to deviate by up to ±0,40% from the return obtained by the benchmark comparator.

The most significant portfolio in terms of amount is the Investment portfolio. As a result of the management of this portfolio, there is a daily positioning that reflects how the resources are invested. At the end of June 2025, the investment portfolio totaled $41.08 billion and had a duration of 2.3 years. Figure B.3 shows the actual position of this portfolio at the end of the first half of 2025.

FIGURE B.3 INVESTMENT PORTFOLIO COMPOSITION
(percent)



Source: Central Bank of Chile.

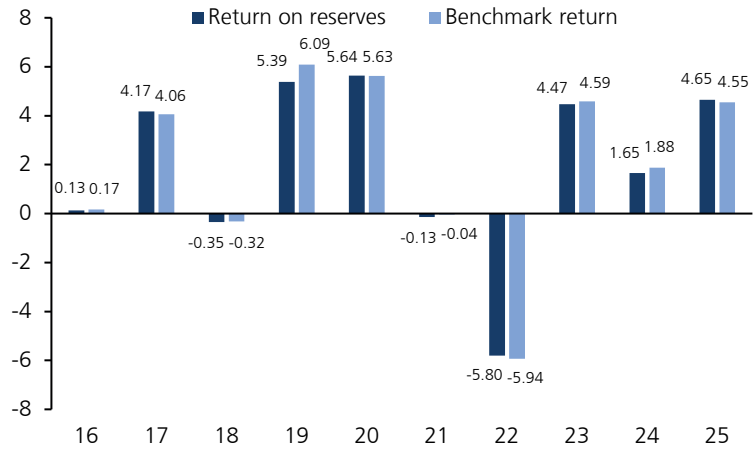
RETURNS

One of the most useful parameters for evaluating how international reserves are managed is by measuring returns. These are calculated by valuing the assets invested in daily at market prices, reviewing all sources of income (e.g., coupon and principal payments, price changes, and exchange rate fluctuations, among others). This calculation yields an absolute return expressed in U.S. dollars.

The return thus obtained by the reserves managers is compared with the return of the benchmark comparator, which, as mentioned, is a theoretical portfolio that serves to guide investments. The difference between the return obtained by the BCCh administration and the return of the benchmark is known as the differential return.

Below is the absolute return obtained from the management of international reserves, compared with the return of the benchmark (excluding the Other assets portfolio). The difference represents the differential return obtained from the management of reserves (Figure B.4).

FIGURE B.4 RETURN ON INTERNATIONAL RESERVES
(percent)



Source: Central Bank of Chile.

In the first half of 2025, the absolute return on reserves was 4.65%, measured in dollars. This figure, in addition to incorporating the returns on assets in their original currency, takes into account the trajectory of the exchange rates at which these assets are invested against the U.S. dollar. Generally speaking, the return was mainly explained by the downward trend in international interest rates during the first half of the year, a movement that was accompanied by a worldwide weakening (depreciation) of the dollar. The combination of falling rates and a weakening dollar tends to increase absolute returns measured in that currency.

Meanwhile, the differential return for the first half of the year obtained by the management of the reserves portfolio (excluding the Other assets portfolio) was 10bp. This represents the difference between the absolute return obtained by portfolio management (4.65%) and the absolute return obtained by the benchmark (4.55%). The differential return above the benchmark was mainly explained by a duration positioning in the investment portfolio that, on average, was greater than the duration of the benchmark during the period, in a scenario of declining interest rates. The portfolio's underexposure to the U.S. dollar also contributed to the positive differential return, in a depreciating dollar context.

INDEPENDENT MANAGERS

As a complement to internal reserves management, since 1995 the BCCh has maintained external portfolio management programs for a portion of its reserves. Currently, the program's main objective is to provide an active benchmark for evaluating internal management. In other words, the BCCh's internal management is not only compared against the performance of the benchmark (theoretical or passive benchmark) but also against the performance of external managers (active benchmark), who manage a portfolio with similar characteristics to that of internal management. The BCCh thus has different benchmarks for evaluating its task.

Moreover, this outsourced portfolio management program aims to add economic value and facilitate the transfer of knowledge and technology.

As of the close of the first half of this year, 3.1% of the Investment portfolio was being managed by two independent external managing entities, namely BNP Paribas Asset Management USA, Inc. and Allianz Global Investors GmbH.

ORGANIZATIONAL STRUCTURE FOR INTERNATIONAL RESERVES MANAGEMENT

International reserves are managed with due separation of responsibilities at different hierarchical levels of the Bank. In this context, to ensure that the processes associated with this management are well defined and have an adequate risk control environment, periodic audits (internal and external) are carried out to comprehensively review decision-making and function delegation processes.

The function of managing international reserves is assigned to the Bank's Financial Markets Division (DMF). To ensure that the investment process is robust, efficient, and has adequate levels of risk control, the investment functions (International Investment Department– Front Office) are segregated from the recording, conciliation, and payment functions (Operations and Payment Systems Department– Back Office).

For its part, the Corporate Risk Division (DRC) is responsible for identifying, assessing, measuring, and monitoring the Bank's corporate, financial, and strategic risks. Accordingly, it performs the functions of financial compliance supervision, risk measurement, and validation of the methodologies used. This unit also acts as the technical counterparty to the DMF in the processes of risk prevention and policy definition regarding the BCCh's financial operations.

The Internal Comptroller's Office, on the other hand, reports directly to the Board and is responsible for periodically evaluating the efficiency and effectiveness of internal control, operational risk assessment, and governance of the integrated reserves management process.

In its periodic publications (the Annual Report and the September IPoM), the Bank systematically disseminates information on the status of international reserves. Some of the information provided in these reports is also available on the BCCh's statistical database.

PEER REVIEW OF THE MANAGEMENT OF INTERNATIONAL RESERVES

The BCCh periodically invites highly reputable institutions to participate in peer review exercises, with the aim of having an independent third party with expertise in international reserves management evaluate practices, methodologies, and results, thereby contributing to promoting transparency and continuous improvement through the recommendations that may be made. In this context, in May 2025, the BCCh conducted a new exercise with the participation of the World Bank. The review covered aspects related to governance, methodologies used for strategic asset allocation, practices associated with portfolio management, risk management, operations, systems, and technologies, among others.

The World Bank's main conclusion was that the BCCh has a sophisticated investment management process, supported by adequate controls and effective oversight. It also concluded that staff training and professionalism are high in all units involved in asset management, and that processes are well documented and aligned with business needs. In addition, it stated that the BCCh has a solid governance structure, which includes a clear segregation of duties and an investment process based on a structured hierarchy of documents. As is usual in this type of exercise, the report also includes some specific recommendations that will further strengthen the international reserves management process.

ANNEX C:

Main measures adopted by the Central Bank of Chile during 2025

JANUARY

10. Circular Letter No. 1010 updated the Operating Regulations of Chapter II of the Compendium of International Exchange Rules, effective 1 January, 2026. In this case, the changes include a procedure for grouping individual foreign exchange (forex) transactions and the incorporation of a new forex transaction code and new types of instruments and bonds[1]/.

28. At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 5%. The decision was adopted by the unanimous vote of its members[2]/.

FEBRUARY

18. Circular Letter No. 741 initiated the trial period, until 31 December, 2025, for reports to the SIID-TR on equity derivatives, commodities, and other underlying assets, which will take effect on 1 January, 2026[3]/.

MARCH

5 . The BCCh launches the monthly publication of the Online Retail Sales Index (Ivocom), an indicator that quantifies the share of e-commerce in total formal retail sales and its evolution.

11. The BCCh published the document "Analytical Considerations for the Implementation Framework of the Countercyclical Capital Buffer", which summarizes the main technical and analytical background information presented to the Board of the BCCh by staff during the process of reviewing and updating the document "Implementation Framework of the Countercyclical Capital Buffer", published in November 2024 and announced in the Financial Stability Report for the second half of 2023.

21. At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 5%. The decision was adopted by the unanimous vote of its members[4]/.

24. The BCCh published its Monetary Policy Report (IPoM) for March 2025[5]/.

27. By means of Board Resolution No. 2704-01, the Central Bank granted the CMF prior approval for the annual rating of systemically important banks.

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[1]/ Find more details in: Circular No. 1010.

[2]/ Find more information in: Monetary Policy Meeting Statement of January 2025.

[3]/ See more details in: Circular Letter No. 741.

[4]/ For more details, see: Monetary Policy Meeting Statement of March 2025.

[5]/ Review the complete document at: Monetary Policy Report (IPoM) for March 2025.

APRIL

17. By means of Resolution No. 2708-02-250417, the Board approved the design and characteristics of the new 100 Chilean Pesos Centennial coin[6]/.

29. At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 5%. The decision was adopted by the unanimous vote of its members[7]/.

30. The Central Bank of Chile published its Integrated Annual Report for 2024[8]/.

MAY

7. The Board approved the publication of the International Monetary Fund's Technical Assistance Report with recommendations to strengthen systemic liquidity management[9]/.

16. At its Financial Policy Meeting (RPF), the Board of the Central Bank of Chile agreed to maintain the Countercyclical Capital Buffer for the banking system set forth in the General Banking Law at 0.5% of risk-weighted assets, which will be enforceable from the end of May 2024. The decision was adopted by the unanimous vote of its members[10]/.

19. The Central Bank published the Financial Stability Report for the first half of 2025[11]/.

29. By means of Resolution No. 2716-01-250529, the Board appointed Mr. José Manuel Garrido Bouzo as a titular member of the Technical Investment Council, referred to in Title XVI of Decree Law No. 3,500 of 1980, for a period of four years, starting on 1 June, 2025. It also appointed Mr. Jorge Antonio Sances Morales as an alternate member of the aforementioned Council for the same period.

JUNE

12. Resolutions No. 2240 and No. 2241, of the General Manager approved amendments to the Operating Regulations of the Low-Value Payment Clearing Houses of Mastercard Administradora Chile and Visa Chile Sociedad Administradora S.A., respectively.

23. By Resolution No. 2723E.01.250623, the Central Bank appointed Mr. Claudio Raddatz Kiefer as the new director of the Financial Policy Division.

26. By Resolution No. 2725-02-250626, the Board submitted for public consultation an amendment to Chapter III.J.1 of the Compendium of Financial Regulations, to incorporate a payment method for public transportation using payment cards[12]/.

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[6]/ See more details at: Resolution 2708-02-250417.

[7]/ For more information, see más información, ver: Monetary Policy Meeting Statement of April 2025.

[8]/ Review the full document in: Integrated Annual Report for 2024.

[9]/ See more information at: Chile: Technical Assistance Report – Strengthening Systemic Liquidity Management.

[10]/ See: Financial Policy Meeting (RPF) – first half of 2025.

[11]/ Review the full document in: Financial Stability Report for the first half of 2025.

[12]/ See more details at: Adaptation of Payment Card Issuance Regulations to enable their use in public transport systems.

17. At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 5%. The decision was adopted by the unanimous vote of its members[13]/.

18. The BCCh published its Monetary Policy Report (IPoM) for June 2025[14]/.

19. By means of Resolution No. 2722-01-250619, the Board accepted the resignation of Mr. Enrique Marshall Rivera as Chairman of the Audit and Compliance Committee of the Central Bank of Chile and appointed Mr. Segismundo Schulin-Zeuthen Serrano as the new Chairman of the Committee until 12 April, 2028[15]/.

JULY

2. By means of Resolution No. 2726-01-250702, a process was initiated to appoint a new member to the Technical Investment Council (CTI). This originated in the resignation of Mr. Claudio Raddatz Kiefer from that position prior to assuming the role of Director of the Financial Policy Division of the Central Bank of Chile[16]/.

10. The Central Bank began the monthly publication of the Sales Indicator by Stratum (IVE), a statistic that seeks to contribute to the understanding of the dynamics of sales in the manufacturing industry, commerce, and business services, according to the size of the firms.

17. By Resolution No. 2728-02-250717, the Board submitted for public consultation a new regulation that seeks to foster the development of the repo market[17]/.

17. By Resolution No. 2728-01-250717, the Board accepted the amendments to the implementation guidelines associated with the investment of the Pension Reserve Fund's resources and the custody guidelines and other matters of the Economic and Social Stabilization Fund and the Pension Reserve Fund[18]/.

23. By Resolution No. 2729E-01-250723, the Board decided to extend the deadline for appointing a full member of the CTI until 8 August, 2025[19]/.

29. Circular No. 3013-969 communicated the entry into force of the replacement of Chapter III.B.2 and the repeal of Chapter III.B.2.2, all of the Compendium of Financial Regulations of the Central Bank of Chile[20]/.

29. At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to reduce the monetary policy interest rate by 25 basis points, to 4.75%. The decision was adopted by the unanimous vote of its members[21]/.

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[13]/ See: Monetary Policy Meeting Statement of June 2025.

[14]/ Review the full document in: Monetary Policy Report (IPoM) of June 2025.

[15]/ See more details in: Resolution 2722-01-250619.

[16]/ See more information at: Central Bank begins search process to appoint a permanent member of the CTI.

[17]/ For more details, see: Explanatory Memorandum: Public Consultation – Repo Compensation Regulation.

[18]/ Learn more in: Resolution 2728-01-250717.

[19]/ For more information, see: Deadline extended for CTI member application.

[20]/ For more information, see: Circular No. 3013-969.

[21]/ For more details, see: Monetary Policy Meeting Statement of July 2025.

AUGUST

5. The Central Bank published the Payment Systems Report for the year 2025[22]/.

5. The Central Bank of Chile launches a program to accumulate international reserves[23]/.

6. Circular Letter No. 748 published the bidding terms applicable to the foreign currency purchase program by the Central Bank of Chile[24]/.

SEPTEMBER

4. By Resolution No. 2738-02-250904, the Board of the Central Bank of Chile appointed Mr. Sergio Rademacher Lizana as a member of the Information Technology Advisory Committee of the BCCh for a three-year term, beginning on 4 September, 2025, to replace Mr. José Benguria Donoso. By the same Resolution, Ms. Romina Torres Torres was appointed Chair of the aforementioned Committee for a term of one year, effective on 4 September, 2025[25]/.

4. By Resolution No. 2738-03-250904, Mr. Mauricio Calani Cadena was appointed as the new Manager of Financial Research.

9. At its Monetary Policy Meeting, the Board of the Central Bank of Chile decided to keep the monetary policy interest rate at 4.75%. The decision was adopted by the unanimous vote of its members[26]/.

10. The Central Bank published its Monetary Policy Report (IPoM) for September 2025.

[22]/ See the full report at: 2025 Payment Systems Report (ISiP).

[23]/ For more information, see: Central Bank of Chile launches international reserves accumulation program.

[24]/ For more details, see: Circular Letter No. 748.

[25]/ See: Appointment of new member and Chair of the Information Technology Advisory Committee.

[26]/ For more information, see: Monetary Policy Meeting Statement of September 2025.

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