

Macro scenario - Chile



March 30, 2026

Good Fundamentals, Bad Oil Timing

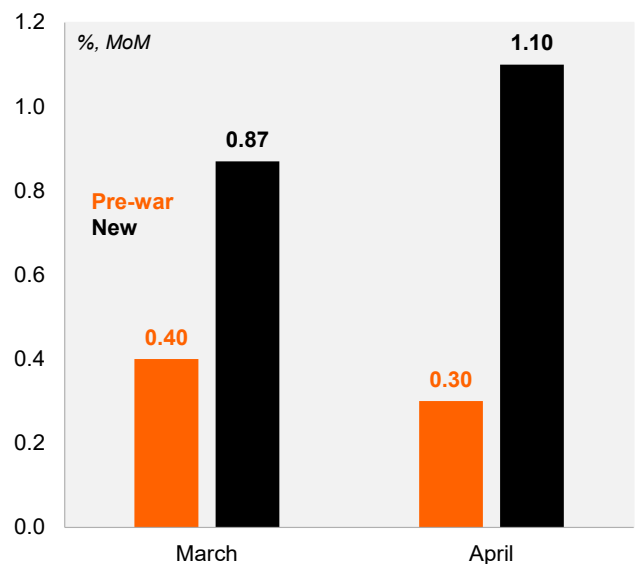
- ▶ A significantly faster-than-expected passthrough of global oil prices to domestic ones led us to revise our 2026 inflation forecast materially up to 4.1% (from 2.8%). Weaker growth at the margin led us to lower our 2026 GDP growth forecast to 2.1% (from 2.6%), although strong fundamentals and a rising investment pipeline led us to raise our 2027 GDP growth forecast to 2.8%.

Lightning strikes: higher oil prices sting sooner than later

Fuel prices carry a combined direct weight of roughly 4% in Chile's CPI basket. Prior to the outbreak of the Middle East conflict, the inflation outlook appeared benign: survey expectations were steadily revised lower, our year-end forecast stood at 2.8%, headline inflation reached 2.4% YoY in February, and core inflation remained at 3.3%.

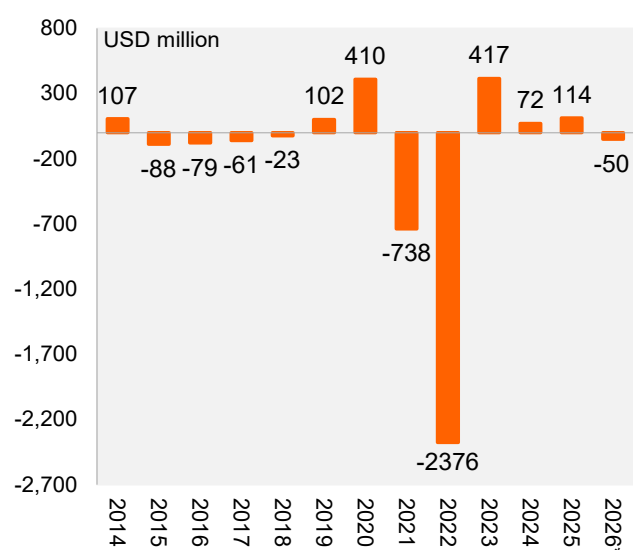
However, the jump in global oil prices and the surprising decision by the administration to pass these through to domestic prices at a breakneck speed will sting. Gas prices are projected to rise by roughly 30% per liter and diesel prices by about 60% per liter, to contain pressure on the fiscal accounts which, under the status quo, would have cost the MoF roughly 1.2% of GDP of lower revenue in the full year (official estimates). As a result, our cumulative inflation forecast for the March-April period rose from 0.7pp to roughly 2pp. These projections consider only the direct effects of higher gasoline and diesel prices. The sudden price spike will also likely accelerate the pass-through to other items in the CPI basket as transportation fees surge – inflation expectations might also be impacted, of course.

Monthly Inflation Forecasts



Source: Itaú

Annual Fiscal Cost of the MEPCO System



*As of 16 of March
Source: Finance Ministry

On activity, Chile entered the shock with improved fundamentals. Record terms of trade, recovering private sentiment, looser financial conditions, a growing investment pipeline, and signs of productivity gains had supported the outlook. However, the drag on activity from higher energy costs and inflation will weigh on the outlook. In addition, momentum at the margin has softened. GDP expanded just 0.7% YoY in the quarter ending January, with non-mining activity growing 1.5%, leaving the statistical carryover for the year at a modest 0.3%. Early indicators—softer tourism inflows, subdued credit dynamics, and persistent constraints in mining output—suggest downside risks to near-term growth, even as the medium-term outlook remains constructive.

Risk-off sentiment combined with Chile’s status as a net energy importer has weighed materially on the CLP. At its weakest point, the peso depreciated by roughly 7% from pre-conflict levels, with FX volatility spiking to levels last seen in the aftermath of “Liberation Day” in April 2025. With terms of trade still favorable and the medium-term growth outlook constructive, we view the currency’s weakness as a transitory overshoot rather than a deterioration in fundamentals. The BCCh has continued its gradual reserve accumulation, adding USD 0.4bn in March alone. Elevated copper prices helped keep the current account deficit contained at 1.2% of GDP last year, broadly unchanged from 2024. While higher oil prices will likely drive some widening this year, the current account deficit should remain narrow by historical standards and comfortably financed. The energy trade deficit stands near 4% of GDP, largely

offset by a robust mining trade surplus that reached close to 19% of GDP last year.

Against this backdrop, the BCCh is set to wait-and-see. In its March 26 baseline update, the central bank incorporated higher near-term inflation expectations but reaffirmed easing medium-term pressures as oil prices eventually unwind. With the output gap now estimated to be slightly negative, the policy signal points to a steady overnight rate at 4.5%, within the neutral range. Anchored medium-term inflation expectations and the assessment of the oil-driven shock as temporary allow the Board to avoid a knee-jerk tightening response. That said, should the geopolitical backdrop lead markets to reprice inflation persistently higher across all horizons, the BCCh would not hesitate to respond by tightening.

Focused on fiscal & growth

The Kast administration took office on March 11 and immediately signaled a pro-growth, fiscally conservative pivot, unveiling a National Reconstruction Bill alongside projected spending cuts totaling ~1.2% of GDP this year. On the revenue side, the bill includes multiple tax measures aimed at boosting private investment and supporting activity, to be formalized through a broader tax reform. These include a reduction in the corporate tax rate for large firms (from 27% to 23%), property tax relief for seniors, a temporary VAT cut on new residential property sales, elimination of the 10% capital gains tax, a temporary reduction in inheritance taxes, and targeted employment subsidies. On the expenditure side, the Ministry of Finance ordered a 3% across-the-board cut in ministerial spending this year (approximately USD 3 billion), plus an additional USD 1 billion in reductions, taking total 2026 spending cuts to about 1.2% of GDP. The government also withdrew the previous administration’s sector-level collective bargaining bill from Congress, easing concerns over further structural increases in labor costs following recent minimum wage hikes, a shorter workweek, and higher formal employment costs stemming from the pension reform.

Sudden spike in oil prices muddles the outlook

We are revising our growth call down this year to 2.1% (-0.5pp) mainly due to weaker tracking. Elevated oil prices also weigh on the growth outlook. Nevertheless, less demanding base effects, the expected decline in oil prices, strong fundamentals, and

time for the pro-growth reforms to take effect led us to revise our 2027 call up by 0.3pp to 2.8%.

Even though inflation has surprised down throughout the year, the unprecedented swift oil price passthrough led us to raise our 2026 yearend inflation forecast to 4.1% (up by 1.3pp). The unwind of oil prices seen ahead along with a projected CLP appreciation from current levels results in YE27 inflation of 2.9%. Our yearend USDCLP is now 880 (just over 2% weaker than our prior scenario), recovering to 860 by the end of next year. With a moderation of historic terms-of-trade, we expect the CAD to rise from 1.2% of GDP last year to a still low 1.7% this year.

Above-target inflation and uncertain second round effects tilt the BCCh's balance of risks from a final cut to potential hikes.

The combination of an expected lagged fiscal revenue recovery and targeted spending cuts lead us to expect a fiscal consolidation to around 2% of GDP this year (2.8% in 2025).

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Chile | Forecasts and Data

	2022	2023	2024	2025	2026F		2027F	
					Current	Previous	Current	Previous
Economic Activity								
Real GDP growth - %	2.1	0.7	2.8	2.5	2.1	2.6	2.8	2.5
Nominal GDP - USD bn	301	336	329	357	403	409	440	431
Population (millions)	19.8	20.0	20.1	20.2	20.3	20.3	20.4	20.4
Per Capita GDP - USD	15,202	16,843	16,392	17,680	19,844	20,143	21,522	21,070
Unemployment Rate - year avg	7.9	8.7	8.5	8.5	8.3	8.3	8.0	8.0
Inflation								
CPI - %	12.8	3.9	4.5	3.5	4.1	2.8	2.9	3.0
Interest Rate								
Monetary Policy Rate - eop - %	11.25	8.25	5.00	4.50	4.50	4.25	4.50	4.25
Balance of Payments								
CLP / USD - eop	851	879	996	901	880	860	860	860
Trade Balance - USD bn	3.6	13.8	20.8	23.8	23.0	25.0	22.0	23.0
Current Account - % GDP	-8.9	-3.1	-1.2	-1.2	-1.7	-1.8	-1.9	-2.0
Foreign Direct Investment - % GDP	6.2	5.7	4.0	4.1	4.5	4.4	4.1	4.2
International Reserves - USD bn	39.2	46.4	44.4	49.5	57.0	57.0	65.0	65.0
Public Finance								
Primary Balance - % GDP	2.1	-1.6	-1.8	-1.8	-0.9	-0.6	-0.3	-0.3
Nominal Balance - % GDP	1.1	-2.4	-2.9	-2.8	-2.0	-1.7	-1.5	-1.5
Gross Public Debt - % GDP	38.0	39.4	41.7	41.7	41.9	41.8	42.5	42.8
Net Financial Position - % GDP	-31.8	-34.4	-37.2	-37.6	-37.9	-38.9	-38.5	-39.0
Net Public Debt - % GDP	20.5	23.2	26.0	25.7	25.9	-37.8	26.1	-38.8

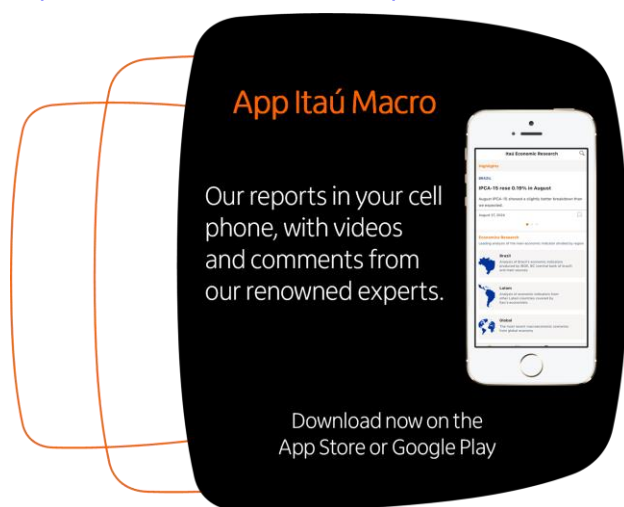
Source: IMF, Bloomberg, BCCh, INE, Haver and Itaú

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