

Public Finance: Official forecasts point to higher fiscal deficits throughout the forecast horizon

In line with Chile's fiscal institutional framework, the Ministry of Finance and Budget Office presented the 1Q26 Public Finance Report, the first of the Kast administration. In a nutshell, the report provides a final look at 2025 data, and raises this year's financing needs and deficit, mainly due to spending that had not been accounted for in the previous report. In addition, the medium-term forecasts project gross public debt rising above the "prudent level" of 45% of GDP by 2028. The forecasts do not include the projected effects of the National Reconstruction Bill under discussion in Congress.

Looking through the rearview mirror... an even greater breach in 2025. According to the report, real revenues in 2025 rose by 3.7%, while real expenditures did so by 3.6%, leading to a nominal deficit of 2.8% of GDP, as previously reported. However, the final data points to a structural deficit of 3.7% of GDP, slightly greater than the 3.6% previously highlighted, but well above the 1.6% target, triggering a third consecutive breach of the structural deficit target. The primary deficit reached 1.7% of GDP in 2025. The structural primary deficit rose to 2.6% of GDP, up from 2.3% in 2024, pointing to a marginally positive fiscal impulse. Gross public debt by the end of 2025 reached 41.5% of GDP.

2026: Lower growth, higher inflation. The Budget Office revised 2026 GDP growth down to 2.1% (from 2.4%), with mining GDP now flat (from 2.7%), partly offset by stronger non mining activity (2.4%; supported by investment). At the same time, inflation was lifted to 3.7% (from 2.7%), reflecting higher fuel costs amid the global energy shock, while copper prices were revised up to USD 5.46/lb on average. Considering an essentially flat carryover from 1Q26, reaching the MoF's 2026 GDP growth forecast implies a relevant sequential acceleration in economic activity throughout the year. Breakeven inflation has drifted towards roughly 4.5% by year end.

A rude awakening. Real revenues in 2026 are projected to rise by 4.6% YoY, to 21.7% of GDP, with mixed revisions across lines; mining-related revenues were revised higher, mainly due to higher copper prices, whereas other revenues related to economic activity were reviewed significantly lower. Spending is projected at 24.1% of GDP. Even though important spending cuts were already implemented by the administration, updated spending forecasts add on roughly 0.8% of GDP in measures that had not been included previously, leading to a projected real expenditure increase of 2.8% YoY. Greater spending stems from expenditures that had only been partially accounted for, including the public sector wage increase. As a result, the 2026 nominal deficit is projected to narrow from 2.8% of GDP in 2025 to 2.4% (previously 1.8%), and the structural deficit would remain unchanged from 2025 at 3.7% (previously forecasted at 2.7%). Gross public debt is forecasted at 43.1% in 2026, up from a forecast of 42% in February 2025. Medium-term forecasts show gross public debt breaching the "prudent limit" of 45% of GDP by 2028, reaching 46.5% in 2030.

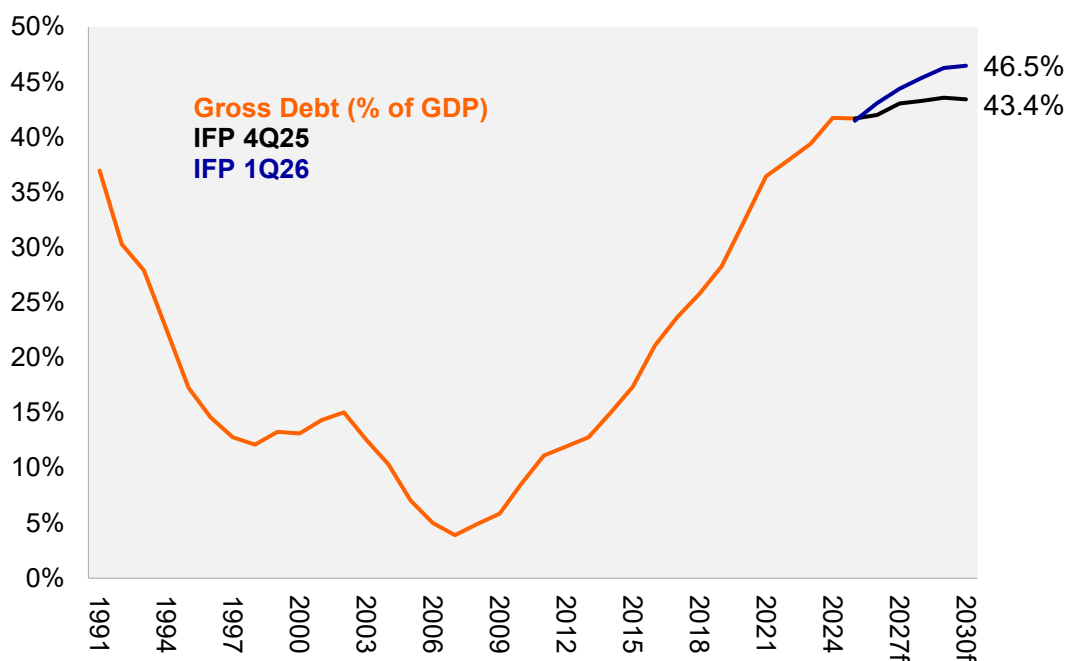
Our take. Fiscal accounts are under more pressure than anticipated. The scenario shift implies a larger financing gap this year, requiring roughly an additional USD 5 billion on top of the USD 17.4 billion of the current debt funding plan; such an increment would require Congressional approval. In a press conference, the Minister of Finance stated they were considering addressing this gap with greater debt financing, likely to pressure local rates at the long end.

- ▶ Complementing measures that raise potential growth and reduce structural spending will be key in addressing the stress on Chile's fiscal accounts.
- ▶ The challenging fiscal outlook, as described in the Public Finance Report, sets a high bar for savings in the Stabilization Fund.

- ▶ Greater public spending contrasts with the BCCh's IPOM forecast, suggesting the fiscal impulse is unlikely to be as negative.
- ▶ In our view, dollar-denominated revenues in 2026 were revised up by roughly USD1 billion, suggesting net dollar inflows this year would reach roughly USD12.6 billion. As such, we expect the MoF to continue selling dollars at a monthly pace of roughly USD700 million.
- ▶ Separately, the government's state audit points to fiscal and governance risks, identifying over USD 9.2bn (approx. 3% of GDP) in potential exposures across more than 500 public entities, based on the review of around 913 million records. A key issue is the postponement of roughly USD 3.2bn in payments (1% of GDP) into 2026, the largest carryover on record, highlighting cash management strains and implicit liabilities transferred across administrations. Beyond this, the audit flags systemic inefficiencies rather than outright fraud, including weak expenditure controls, repeated direct procurement practices, under-execution (>30%) of budgets, unpaid or poorly justified transfers, and contractual breaches. While authorities stress these are preliminary alerts, the findings suggest structural weaknesses in fiscal execution and oversight, with potential implications for future consolidation efforts, contingent liabilities, and public sector efficiency.

On data: The Budget Office will release April's fiscal data on May 29, and the fiscal decree that outlines the administration's four-year fiscal plans will be published on June 9.

A more challenging debt trajectory



Source: Budget Office, Itaú

Central Government financing needs in 2026

(CLP million, 2026 prices)

Uses of funds

| | IFP Re-estimate 4Q25 | IFP 1Q26 |
|--|----------------------|-------------------|
| Gross financing needs | 19,440,280 | 22,327,463 |
| Effective fiscal deficit | 6,645,575 | 8,735,476 |
| Sovereign wealth fund contributions | 1,113,502 | 1,179,603 |
| Debt amortizations | 7,143,425 | 7,169,255 |
| Recognition bond payments | 69,096 | 69,096 |
| Capital injections into public enterprises | 347,937 | 348,344 |
| State-guaranteed student loans (CAE) | 493,672 | 493,672 |
| Multilateral institutions – equity contributions | 141,168 | 143,120 |
| Lending (on-lending / policy loans) | 2,902,515 | 2,902,515 |
| Consolidation adjustments | 583,390 | 1,286,382 |

Source: Budget Office, Itaú

Sources of financing

| | IFP Re-estimate 4Q25 | IFP 1Q26 |
|--|----------------------|-------------------|
| Total financing sources | 19,440,280 | 22,327,463 |
| Fiscal surplus | – | – |
| Debt issuance | 15,869,322 | 15,869,322 |
| Treasury assets drawdown | 889,810 | 889,810 |
| Loan recoveries | 1,383,998 | 1,383,998 |
| Other financing sources (to be defined) | 1,297,150 | 4,184,333 |

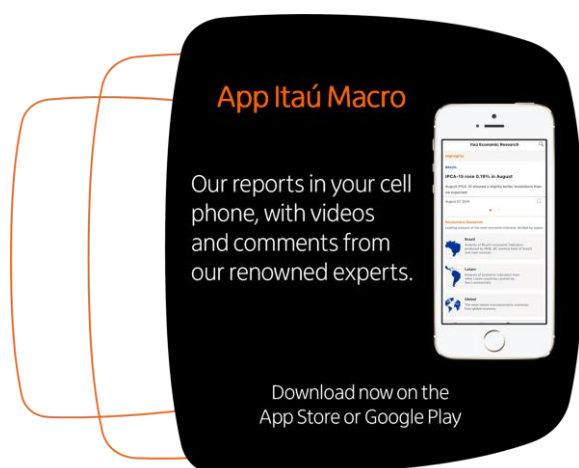
Source: Budget Office, Itaú

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