Macro scenario - Chile

February 27, 2026

Opportunity Ahead

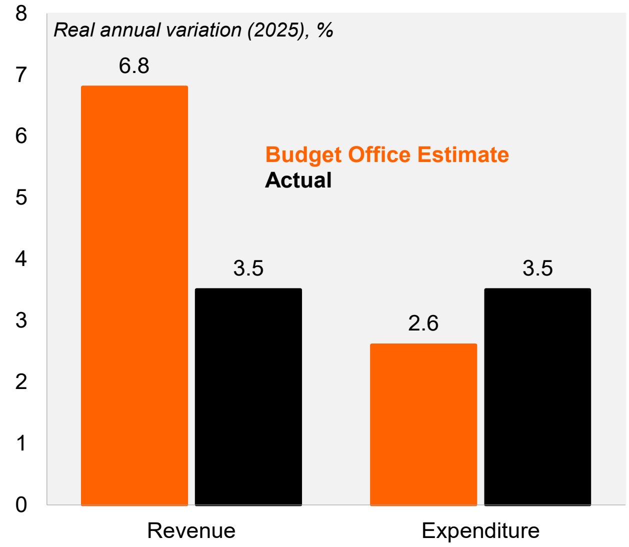
- Faster-than-expected disinflation underway will likely result in a March rate cut, which would take the policy rate to a 4.25% resting place. Monetary policy is within the neutral range and this last cut will come after a prolonged battle at taking inflation to the target. We believe the Board will favor a cautious approach after implementing the next cut, staying put in order to assess inflation and activity dynamics during the start of the year. The swift CLP recovery will drag prices down, but a terms-of-trade led economic rebound could boost medium-term inflation pressures. While our scenario sees rates at the 4.25% neutral level, the balance of risks leans towards higher rates over the forecast horizon given the upside bias to growth.

Ready, set, go

President-elect Kast's cabinet will target higher growth. Jorge Quiroz was confirmed as Minister of Finance, while Daniel Mas will head both the Ministry of Economy and the Ministry of Mining. The picks underscore the focus on advancing measures to streamline investment, cutting corporate taxes, and implementing a fiscal adjustment. The remainder of the cabinet consists of technocrats and experienced politicians across the political spectrum. Chile's political "honeymoon period" is relatively short (around six months), offering a narrow legislative window to advance priority reforms, including a proposal to reduce the corporate tax rate to 23%. Beyond legislative initiatives, the Kast administration aims to accelerate growth through administrative and regulatory actions already within the executive's authority. These include ordering public agencies to promptly resolve claims that currently hold up USD 12 billion (~3.4% of GDP) in investment projects and eliminating more than 1,500 bureaucratic requirements that constrain the construction sector. The Kast administration begins its four-year term on March 11, 2026.

The incoming administration inherits a weaker-than-expected fiscal scenario. The government missed its structural fiscal deficit target for the third consecutive year, highlighting the continued deterioration of the fiscal accounts. The 2025 structural deficit of 3.6% of GDP stands well above the 1.1% target signaled in early 2024 and the subsequent 2.2% update, reflecting both more expansionary than planned spending and weaker than expected revenues. Looking ahead, the main challenge relates to spending growth. Over the past decade, fiscal expenditure has expanded at an average real rate of 4.5% per year, while the economy has grown at just 2%. Although Chile continues to enjoy favorable and competitive financing conditions in both domestic and international capital markets, strengthening the fiscal playbook will be essential to preserve such standing. The implementation of spending cuts, paired with measures that bolster potential growth, will be key to safeguarding Chile's investment grade rating over the medium term.

Overestimating fiscal revenues



Source: Budget Office, Itaú

Favorable activity drivers

The economy grew at an annualized rate of 1.7% (QoQ/SAAR) in 4Q25, pulled up by a near 10% gain in commerce. Services grew 1% QoQ/SAAR, while mining activity (which is typically volatile) posted a partial recovery of 3% following the -17% slump in 3Q. Nevertheless, using the 4Q25 activity levels for the whole of 2026 results in a carryover of only 0.3% as activity suffered during 2H25, mainly due to mining. The monthly GDP proxy points to 2025 GDP growth of 2.3%, to be confirmed with national accounts data release on March 18. Non-mining activity rose by 2.8% in 2025 (2.3% in 2024), boosted by services and commerce. While expectations for mining at the start of last year were upbeat, the sector faced significant supply challenges leading to a 2.0% contraction (+5.2% in 2024).

Recovering private sentiment amid record high terms-of-trade, will support activity dynamics ahead. Below target inflation, along with lower average interest rates and a gradual recovery of the labor market should sustain retail dynamics, despite drags from lower inbound tourism flows from Argentina. Business sentiment at the start of the year surged to the highest level since September 2021. Excluding mining, business sentiment neared neutral levels (not seen since early 2022). Consumer sentiment also jumped to the highest level since early 2019, pulled up the one-year outlook (58 points, 50 = neutral). Separately, the stock of bank credit in the Chilean system rose nominally by 2.1% YoY in 4Q25, similar to the whole of 2025, implying an inflation-adjusted credit crunch that we expect to unwind in 2026 amid more favorable rates, inflation and sentiment. Imports of capital goods continue to rise at a solid pace, and the 4Q25 update to the five-year investment pipeline, published by CBC, showed upward revisions.

The CLP catches up

The CLP appreciation over the last quarter (around 8%) has moved the currency's value closer to levels coherent with its fundamentals. The improved growth outlook, lower political uncertainty, a surging trade surplus amid record terms-of-trade, below target inflation and the expectation of a wider interest rate differential (thanks to expected Fed easing) have supported the latest CLP rally. The Central Bank has continued to accumulate international reserves (USD 3.0 billion since mid-August) at a USD25 million daily pace (~2% daily turnover) that is small enough to not affect FX dynamics.

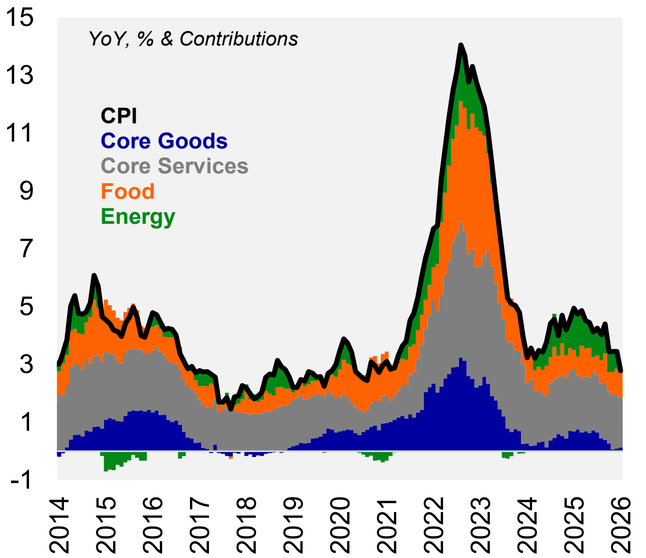
The rolling-year trade balance neared USD 22 billion (6% of GDP) at the start of the year. While exports are led by copper, lithium and gold sales are also benefiting from the latest commodity cycle. On the import side, the Chilean economy is aided by low global energy prices, while consumer and capital goods purchase remain aligned with a robust domestic demand outlook. The current account deficit is likely to remain narrow and comfortably financed by FDI.

Lower short-term inflation

Sequential inflation pressures remain subdued. Annual inflation declined to 2.8% at the start of the year (from 3.5% in December), supported by favorable base effects with the absence of adjustments to electricity tariffs. This marks the first time since March 2021 that inflation falls below the 3% target. Core inflation reached 3.4% YoY (versus 3.3% in December). At the margin, annualized inflation for the quarter ending in January stood at 2.1% (broadly in line with 4Q and down from 3.8% in 3Q) while core inflation moderated to 3.2%, reflecting weaker goods-related pressures.

Electricity price developments reduce inflation risks. The methodology companies will use to correct a prior tariff miscalculation carries downward implications for inflation. Previously, we had expected the rebate to be a fixed amount, not applicable to the CPI calculation methodology and result in a 2% increase in electricity prices in February. However, updated information shows that the compensation is tied to consumption volumes and is therefore relevant for CPI measurement. As a result, we now anticipate electricity prices (2.2% of the basket) to fall by roughly 2%. Additionally, the outgoing government's proposal to address accumulated distributor debt through a fixed monthly consumer credit will most likely not be incorporated by the statistics agency.

Energy-driven inflation dissipates



Source: INE, Itaú

Closing the cycle

The minutes of the January monetary policy meeting signaled policymakers will deliver a cut in March. Board members agreed the monetary policy rate should move toward the midpoint of the neutral range (4.25%), leading to two viable policy options in January: holding the rate at 4.5% or already cutting to 4.25%. Tactical preferences tilted the balance towards a hold, in line with market expectations. The central bank acknowledged that favorable cost factors such as CLP appreciation and low international fuel prices would keep inflation below the 3% target during the first semester. Yet medium-term inflation was still projected to converge toward the 3% target as expectations for activity and demand were improving, supported by better business and household sentiment, and stronger external conditions. So, the next cut will also be the last in a long while. Rates may well need to rise again by 2027.

Lower inflation path, weaker fiscal footing

We believe the favorable terms-of-trade shock, combined with lower interest rates and declining inflation, will consolidate the economic recovery, resulting in GDP growth of 2.6% this year (2.3% in 2025). Our projection implies a notable sequential acceleration relative to last year, with average QoQ/sa growth of 0.8% (0.4% in 2025). We assume the mining sector will return to positive growth, while elevated copper prices continue to support investment dynamics. For 2027, we now see GDP growth of 2.5% (+0.2pp), boosted by greater investment dynamics.

We forecast a year-end USDCLP of 860 (880 previously), incorporating a higher copper price path. We now anticipate a current account deficit of 1.8% of GDP in 2026, a 0.4pp improvement from our prior scenario, as terms-of-trade gains bolster the trade surplus.

We expect inflation to average 2.6% this year, reflecting a more appreciated CLP and the impact of electricity-related adjustments. We have revised our year-end inflation forecast down by 20bps to 2.8%. Downside pressures remain concentrated in goods prices, while core inflation continues to show signs of persistence, consistent with a rebound in domestic demand.

The faster-than-expected disinflation underway will likely lead to a March rate cut, bringing the policy rate to a terminal level of 4.25%. With monetary policy now within the neutral range (following a prolonged effort to bring inflation back to target) we expect the Board to adopt a cautious stance after the March cut, assessing inflation and activity data as the year unfolds. The sharp CLP appreciation will help contain near-term price pressures, but a terms-of-trade-driven recovery could lift medium-term inflation risks. While our baseline keeps rates at the neutral 4.25% level, the balance of risks is tilted toward higher rates given the upside bias to growth.

Revenue shortfalls and higher-than-expected spending again produced a 2.8% nominal deficit in 2025, unchanged from the previous year. Fiscal consolidation should resume this year, driven mainly by a lagged recovery in revenues (supported by elevated copper prices) and by spending cuts to be implemented by the incoming administration. We now project a nominal deficit of 1.7% of GDP, 0.4pp higher than in our prior scenario.

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Chile | Forecasts and Data

	2022	2023	2024	2025F		2026F		2027F	
				Current	Previous	Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	2.2	0.5	2.6	**2.3**	2.3	**2.6**	2.6	**2.5**	2.3
Nominal GDP - USD bn	302	336	330	**348**	348	**409**	395	**431**	423
Population (millions)	19.8	20.0	20.1	**20.2**	20.2	**20.3**	20.3	**20.4**	20.4
Per Capita GDP - USD	15,209	16,829	16,442	**17,225**	17,225	**20,143**	19,424	**21,070**	20,707
Unemployment Rate - year avg	7.9	8.7	8.5	8.5	-	**8.3**	8.3	**8.0**	8.1
Inflation									
CPI - %	12.8	3.9	4.5	3.5	-	**2.8**	3.0	**3.0**	3.0
Interest Rate									
Monetary Policy Rate - eop - %	11.25	8.25	5.00	4.50	-	**4.25**	4.25	**4.25**	4.25
Balance of Payments									
CLP / USD - eop	851	879	996	901	-	**860**	880	**860**	860
Trade Balance - USD bn	3.6	13.8	21.0	20.8	-	**25.0**	22.0	**23.0**	20.0
Current Account - % GDP	-8.8	-3.1	-1.5	**-2.5**	-2.5	**-1.8**	-2.2	**-2.0**	-2.3
Foreign Direct Investment - % GDP	6.2	5.5	3.8	**4.1**	4.2	**4.4**	4.3	**4.2**	4.0
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	-1.7	**-1.8**	-1.4	**-0.6**	-0.1	**-0.3**	0.4
Nominal Balance - % GDP	1.1	-2.4	-2.8	**-2.8**	-2.5	**-1.7**	-1.3	**-1.5**	-1.0
Gross Public Debt - % GDP	38.0	39.4	41.7	**41.7**	42.4	**41.8**	42.9	**42.8**	43.0
Net Financial Position - % GDP	-31.8	-34.4	-37.2	**-37.6**	-38.4	**-37.8**	-38.9	**-38.8**	-39.0
Net Public Debt - % GDP	20.5	23.2	26.0	**26.3**	27.1	**26.3**	27.6	**26.7**	27.6

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

Macro Research – Itaú

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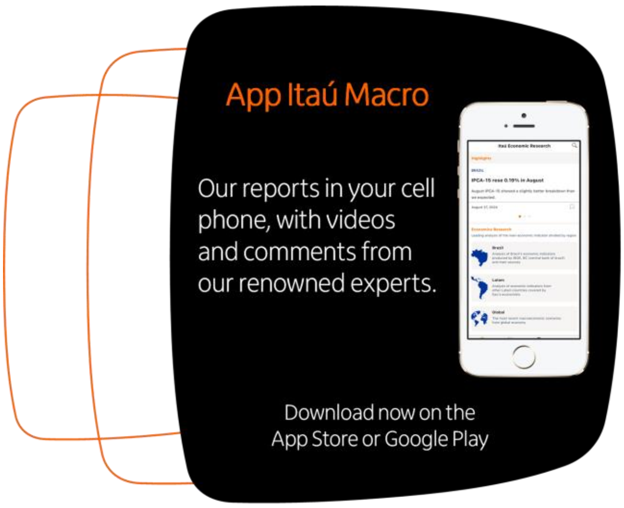

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