Macro scenario - Chile

June 26, 2026

Rebalancing of inflation risks

- The economy is navigating a soft growth environment with externally driven inflation volatility, in the absence of significant domestic macro imbalances. The macro outlook is characterized by short-term weakness but a gradual normalization projected ahead, supported by improving investment dynamics and favorable medium-term export fundamentals. The scenario justifies a neutral and cautious monetary stance, ensuring inflation expectations remain anchored, while not undermining the activity recovery path. Downside inflation surprises and developments in the Middle East led us to revise our yearend inflation forecast to 4.1% (-0.4pp from our previous scenario), while the divergence in monetary policy paths with the FED lead us to revise our yearend USDCLP call to 880 (approximately +2.5%).

Weak activity lingers into 2Q26

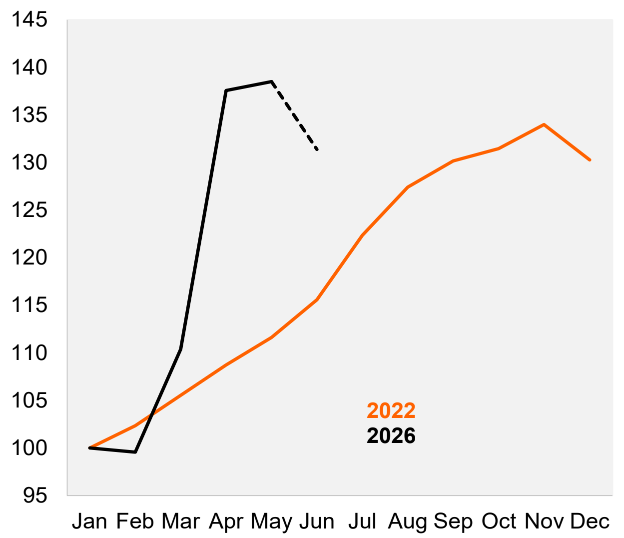
Economic activity lost momentum in early 2026, with output contracting in the 1Q due to a combination of sector-specific supply disruptions and weaker domestic demand dynamics. The decline has been particularly concentrated in mining, but agriculture and fisheries have also underperformed. Base effects will likely result in a reduced drag from mining during 2H26. Domestic demand signals point to softening private consumption amid labor market weakness, slowing real wage growth and limited credit dynamics. Job creation remains modest, and forward-looking indicators suggest that employment conditions are still adjusting with a lag to weaker activity levels observed in recent quarters. Overall, the labor market still appears to retain some degree of slack, broadly consistent with the weak cyclical backdrop, limiting demand-side inflationary pressures. On the other hand, although important fiscal spending cuts were swiftly implemented by the administration, updated spending forecasts for 2026 leading to a projected real expenditure increase of 2.8% YoY (up from 1.7% initially estimated). Greater spending stems from expenditures that had only been partially accounted for, including the public sector wage increase approved in Jan-26. Despite underwhelming investment dynamics at the start of the year, the announcement of new projects, investment streamlining and favorable terms-of-trade sustain an upbeat medium-term outlook.

Underlying inflation pressures remain contained

The recent inflation uptick has been primarily driven by external cost pressures rather than domestic demand conditions. The increase has been concentrated in energy-related components and tradable goods, reflecting higher global oil prices and exchange rate pass-through. In contrast, measures of core inflation have remained more contained, suggesting that second-round effects have so far been limited. This distinction supports the view that current inflationary pressures are predominantly supply-driven and transitory, rather than indicative of a renewed demand imbalance. More recently, following the US-Iran agreement, the MoF decreed a swift decline of domestic gasoline prices, in line with international prices, which should support the gradual inflation convergence back to the 3% target.

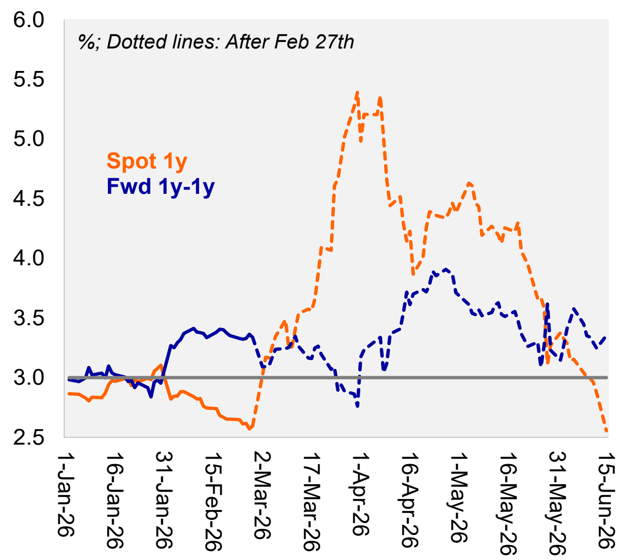
Gasoline prices start to fall

Index, January = 100



Source: INE, FinMin.

Inflation breakevens back near 3% target



Source: BCCh, Itaú

FX may face pressure from lower interest rate differentials

External conditions continue to play a central role in shaping Chile's macroeconomic outlook. Copper prices have shown resilience and are expected to provide medium-term support, helping to underpin export revenues and partially offset higher energy import costs. The exchange rate has remained sensitive to global financial conditions and commodity price movements, operating as a key shock absorber. While depreciation pressures have amplified imported inflation in recent months, the favorable copper price outlook and eventual normalization of global conditions should support a more stable currency trajectory over time. The currency risk stems from the narrowing of the interest rate differential with the US as monetary policies are projected to diverge.

Hike chatter shifts to potential cuts

Monetary policy has been on a holding phase since March. The policy stance is broadly consistent with a neutral real rate setting, reflecting the need to balance two competing forces: elevated short-term inflation driven by external shocks, and weak domestic demand conditions. The BCCh signaled a data-dependent stance, with decisions taken on a meeting-by-meeting basis. Focus is on the persistence of inflationary pressures, inflation expectations, and potential second-round effects, as well as the evolution of global cost shocks. Compared to March, the Board now sees more balanced inflation risks that lead to a broadly symmetric policy rate corridor. This reinforces a cautious approach, aimed at ensuring inflation convergence without undermining the recovery in activity. Market pricing has swiftly shifted from expectations that the BCCh would hike rates this year to a view that rate cuts are now more likely as underlying inflation pressures remain contained. Already within the neutral range, monetary policy is well-positioned to address potential scenarios. Still, Fed tightening, with its potential implications to the exchange rate, add a note of caution to the prospective scenario.

An active political front

The flagship Reconstruction Bill was approved in its general form by the Senate. The narrow margin (1 vote majority) reflects divisions across party lines. The bill will now be discussed at the committee level, as the MoF plans on a swift approval. Separately, the Lower House approved a bill authorizing a USD 6.2bn increase in central government borrowing for 2026, which now moves to the Senate. In addition, the Senate approved a 2.7% nominal rise in the minimum wage. The flat real adjustment marks a clear shift from the sizeable increases seen in recent years and, together with a shorter workweek and higher employer pension contributions, appears to be contributing to labor market slack.

In line with Chile's fiscal institutional framework, the MoF presented the decree that sets the administration's fiscal targets for the four-year term. The annual structural deficit targets were set at 2.6% of GDP in 2026, 1.8% in 2027, 1.7% in 2028, 1.6% in 2029, and 1.5% in 2030. Throughout the presidential campaign, the team indicated it would target structural balance by 2030. The transition to a1.5% structural deficit target by 2030 was due to the more challenging starting point, following the worse-than-expected 3.7% structural deficit in 2025. In parallel, the "prudent" gross public debt threshold remained unchanged at 45% of GDP. The MoF's fiscal plan considers the effects of the National Reconstruction bill currently under discussion in Congress. The fiscal plan points in the right direction of restoring credibility to the fiscal institutional framework, while aiming at a swift stabilization of public debt.

Revising inflation down; upside pressure on rates fades

We kept our growth outlook broadly unchanged, with GDP at 1.5% for 2026 and 3.1% for 2027. Incoming data continue to point to a weak starting point for the year, with low carryover and a still-fragile labor market constraining consumption. While the balance of risks tilts to a deeper activity downturn in the short-term, our scenario sees an improving investment cycle, supported by a strong pipeline of projects and policy efforts to mobilize private capital, gradually gaining traction and sustaining the recovery into 2027.

We revised our inflation forecast lower, now seeing CPI ending 2026 at 4.1% (from 4.5%), as underlying pressures remain contained despite ongoing energy-related volatility. At the same time, we revised our FX outlook higher, with USD/CLP now projected at 880 by end-2026 (approximately +2.5%), reflecting the divergence in monetary policy paths following our revised call of FED hikes.

Our baseline monetary policy scenario remains unchanged, with the policy rate at 4.5% over the forecast horizon. The combination of still-elevated headline inflation and contained core dynamics supports a prolonged pause, as the central bank monitors second-round effects and expectations. The lower inflation path reduces the urgency of additional tightening, while rising rates abroad and the supply-shock nature of the activity slowdown limits the appeal of lowering rates.

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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	**1.5**	1.5	**3.1**	3.1
Nominal GDP - USD bn	301	336	329	357	**402**	405	**435**	446
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	**19,775**	19,915	**21,264**	21,804
Unemployment Rate - year avg	7.9	8.7	8.5	8.5	**8.5**	8.5	**8.2**	8.2
Inflation								
CPI - %	12.8	3.9	4.5	3.5	**4.1**	4.5	**3.0**	3.0
Interest Rate								
Monetary Policy Rate - eop - %	11.25	8.25	5.00	4.50	**4.50**	4.50	**4.50**	4.50
Balance of Payments								
CLP / USD - eop	851	879	996	901	**880**	860	**870**	850
Trade Balance - USD bn	3.6	13.8	20.8	23.8	**28.0**	28.0	**25.0**	25.0
Current Account - % GDP	-8.9	-3.1	-1.2	-1.2	**-1.0**	-1.0	**-1.5**	-1.4
Foreign Direct Investment - % GDP	6.2	5.7	4.0	4.1	**5.2**	5.2	**5.1**	4.9
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	-1.7	**-1.2**	-1.2	**-0.3**	-0.3
Nominal Balance - % GDP	1.1	-2.4	-2.9	-2.8	**-2.4**	-2.4	**-1.5**	-1.5
Gross Public Debt - % GDP	37.9	39.4	41.8	41.5	**43.2**	42.9	**44.2**	43.8
Net Financial Position - % GDP	-31.8	-34.4	-37.3	-37.5	**-39.4**	-39.1	**-40.5**	-40.1
Net Public Debt - % GDP	20.5	23.2	26.0	26.5	**28.3**	28.1	**29.4**	29.1

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

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