Macroeconomic Research

CHILE: Top themes for 2026

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1. New government to focus on boosting growth.

- Business sentiment has improved amid favorable terms-of-trade; advancement on measures to streamline environmental processes would buoy an additional wave of investment tailwinds.

2. The Chilean peso has reverted to levels more coherent with fundamentals.

- Elevated terms-of-trade, a favorable activity outlook and gradual recovery of interest rate differentials support a further currency recovery through 2027 to USDCLP 860.

3. After five years above the 3% target, inflation is set to average 2.7% in 2026.

- Low global oil prices and an appreciated CLP are set to take goods inflation from 2.8% in 2025 to 0% this year. In the absence of large hikes in electricity prices and the minimum wage, service inflation will hover near its 4% trend.

4. What could trigger a hiking or cutting cycle?

- In the context of short-term downside CPI pressure from CLP dynamics, the evolution of medium-term inflation expectations and the output gap will be key.

5. How swift can the fiscal consolidation unfold?

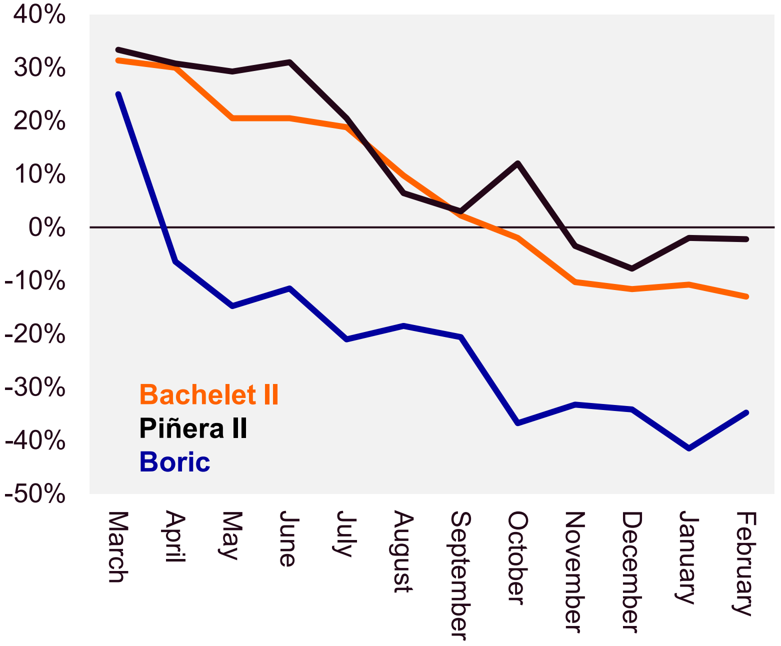
- With spending cuts targeted and copper prices at historic levels, can Chile outperform on the fiscal front?

1. New government to focus on boosting growth.

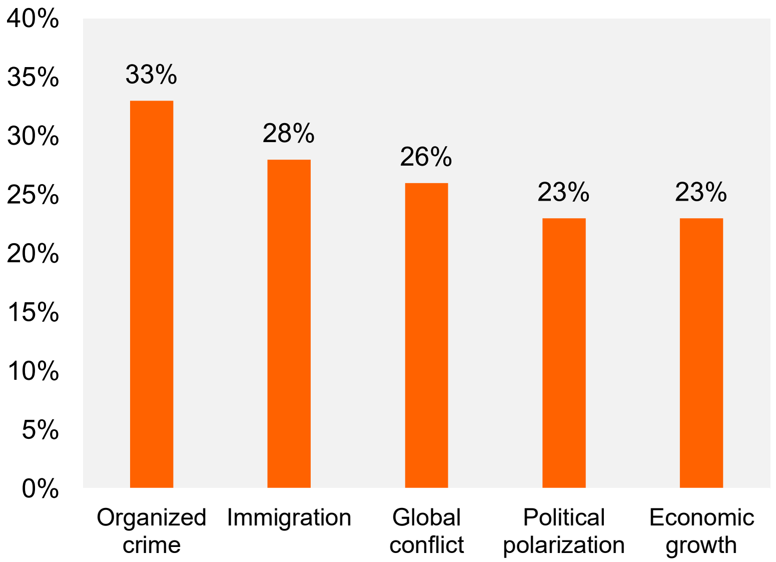
The Kast administration takes office on March 11. Most cabinet posts have been announced with Jorge Quiroz to head the key finance ministry.

- Historically, the president's honeymoon period is relatively short.
- Sustaining a recovery in business sentiment through tangible measures that streamline environmental processes will likely buoy an additional wave of investment tailwinds.

First-Year Net Approval



Survey: Key themes for Chile in 2026



President-elect Kast's campaign messages
Taxes:
Cut corporate tax rate from 27% to 23%; Eliminate capital gains tax on illiquid shares; restore full tax integration system.
Investment and Growth:
Restore 4% GDP growth; raise investment to 30% of GDP; increase productivity by 1.5% through deregulation, tax cuts and fiscal adjustment.
Fiscal Adjustment:
USD 6bn within 18 months through austerity, efficiency and eliminating poorly evaluated programs.
Labor Market:
Offer tax incentives for companies hiring workers at risk of informality.

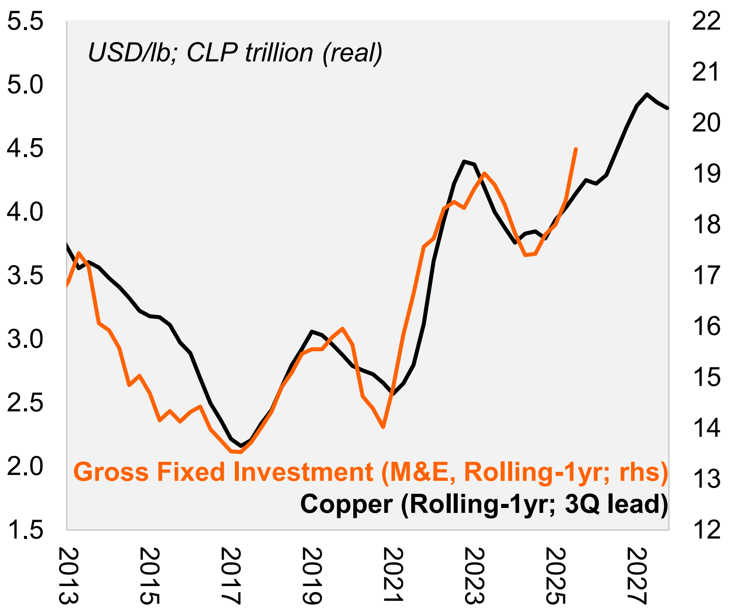
Source: Cadem, Presidential Campaign Program

1. New government to focus on boosting growth.

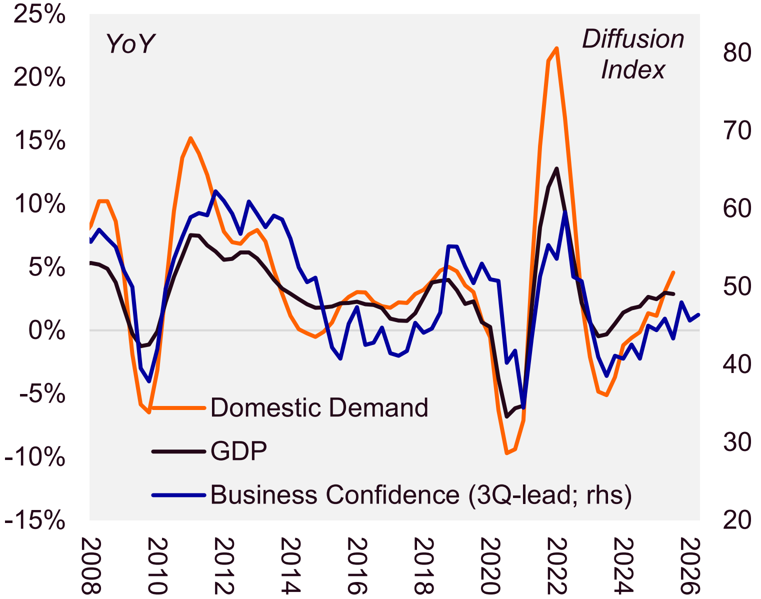
Copper prices will sustain mining capital spending, but business sentiment has room to improve and support investment spillovers to other sectors.

- Despite historically high terms-of-trade, business sentiment remains far below cycle peaks.
- Upbeat investment has been concentrated in mining and energy sectors, with the labor-intensive construction sector lagging.

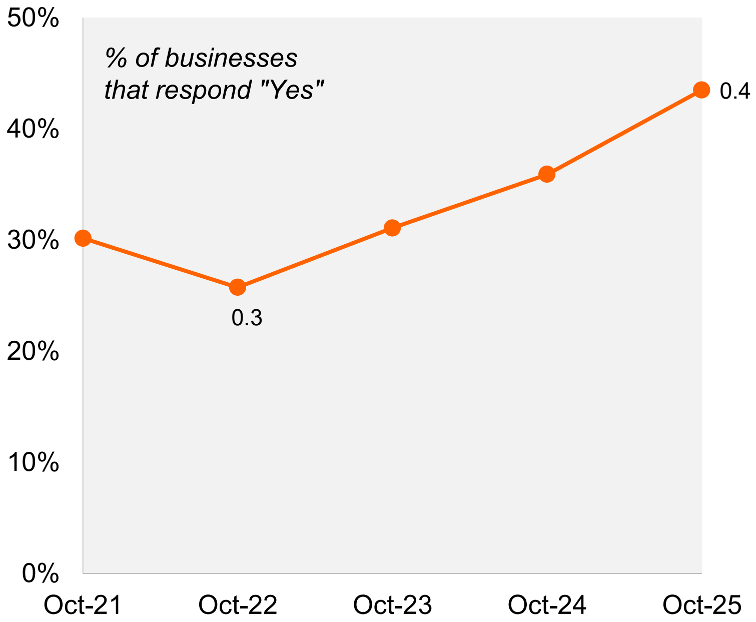
Copper and M&E investment



Business sentiment has room for additional improvement



Planning to invest next year?



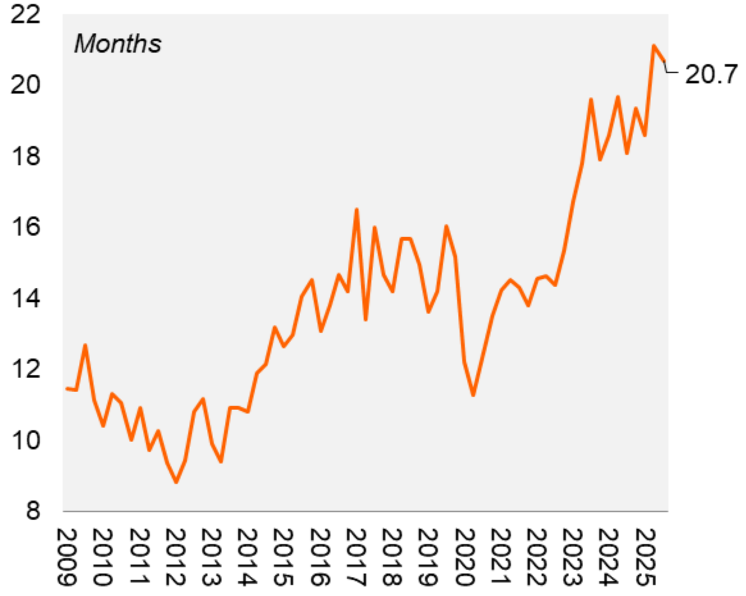
Source: BCCh, Icare, Itaú

1. New government to focus on boosting growth.

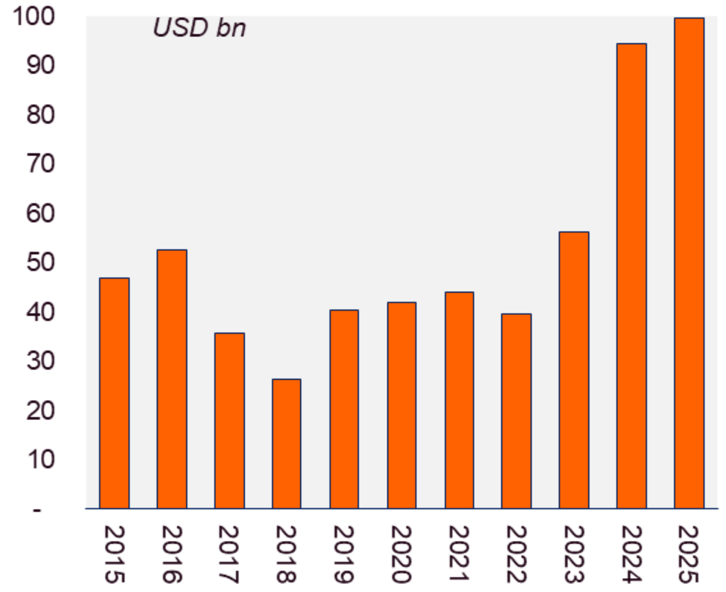
Simplifying environmental evaluation processes is a potential low-hanging fruit that could unlock the investment pipeline.

- While construction sentiment has gradually improved, it remains at low levels. Credit dynamics have yet to meaningfully recover, despite lower interest rates.
- We now expect growth of 2.6% this year (+0.2pp) on the back of our global scenario revision. Risks still tilt to the upside amid the possibility of more robust construction investment path.

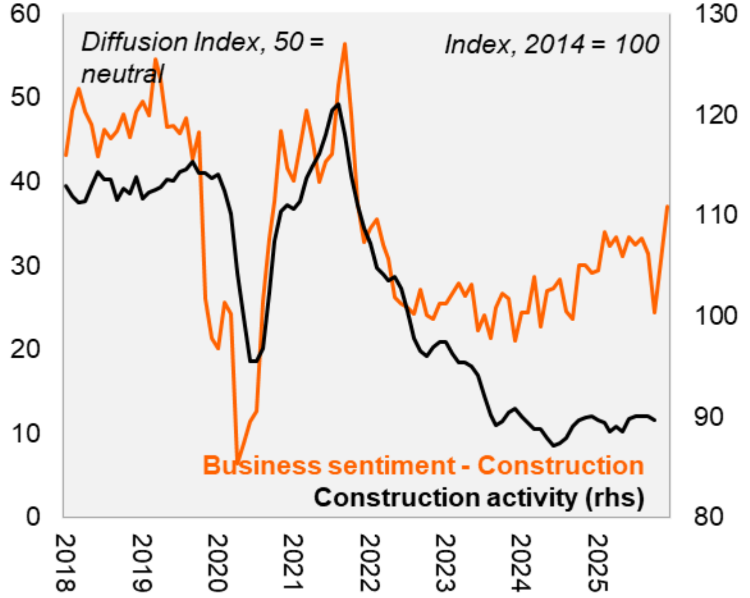
Environmental approval process



Stock of investment projects under environmental probe



Sentiment and Construction



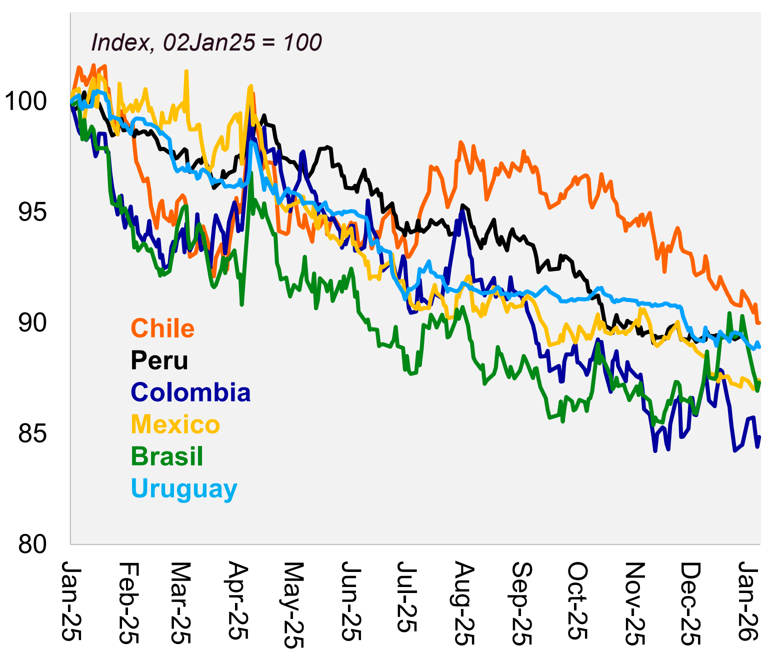
Source: BCCh, CChC, SEIA, Itaú

2. The Chilean peso has reverted to levels more coherent with fundamentals.

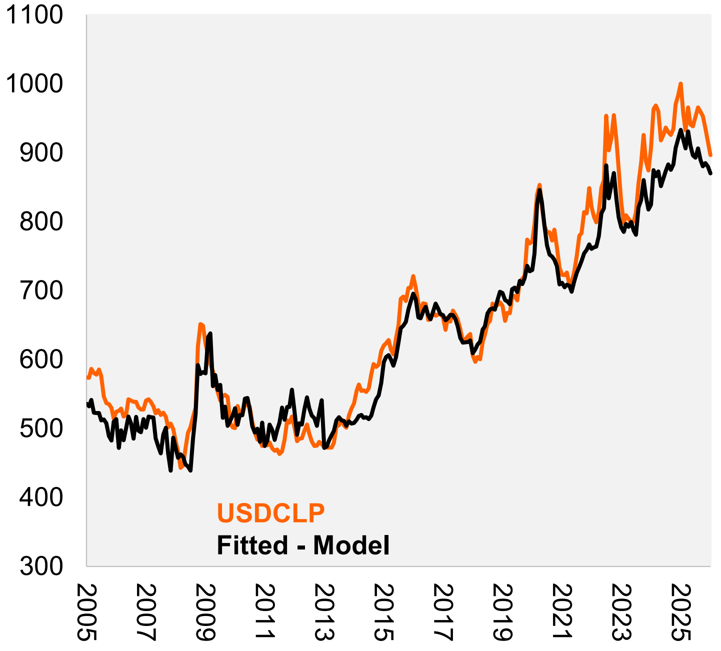
After the significant overshooting in 2H25, the CLP has recovered.

- Market uncertainty over the political scenario, tariff noise around copper and low-interest rate differentials led to an underperformance of the CLP during 2H25.
- With the Chilean economy rebalanced, economic uncertainty levels are back to levels registered prior to the pandemic and social unrest.
- As idiosyncratic drivers dissipated, correlation with historical drivers, such as copper prices, returned.

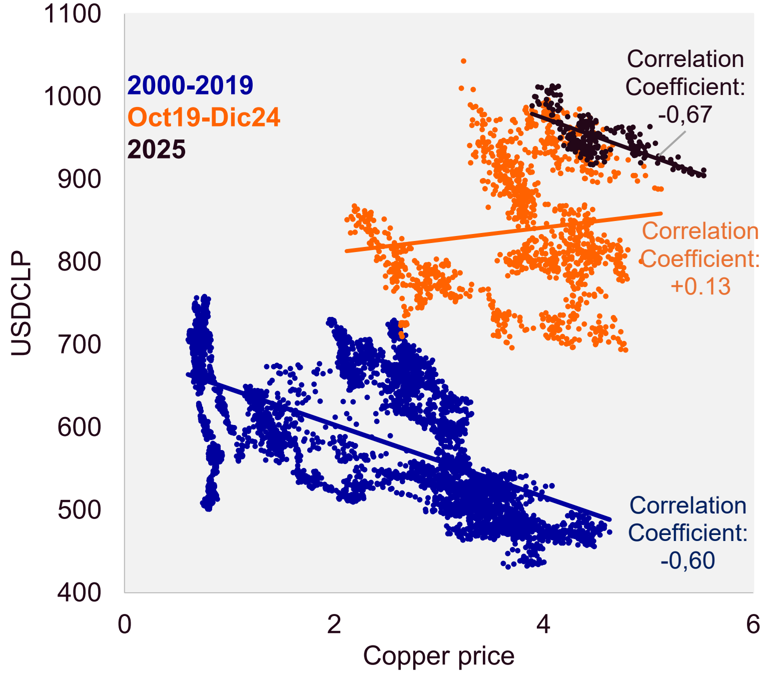
Regional currencies



USDCLP vs Model



Copper-CLP relationship



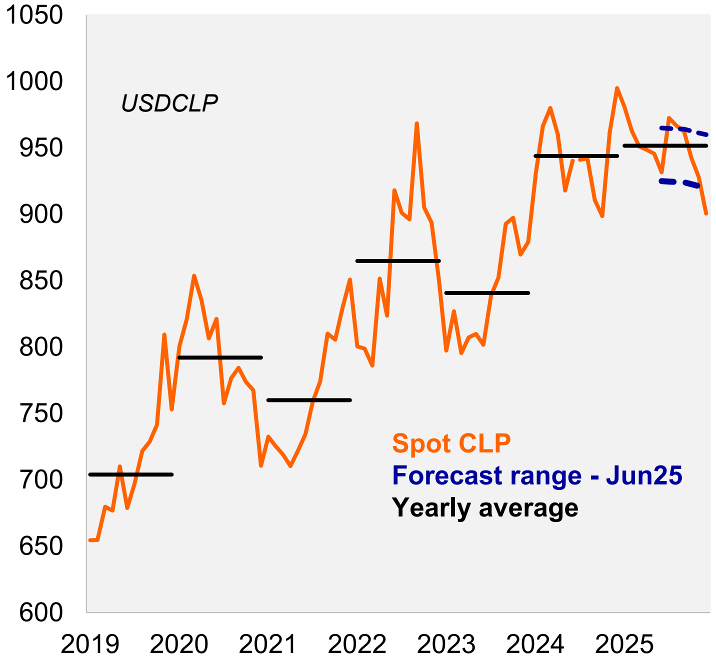
Source: INE, BCCh, Itaú.

2. The Chilean peso has reverted to levels more coherent with fundamentals.

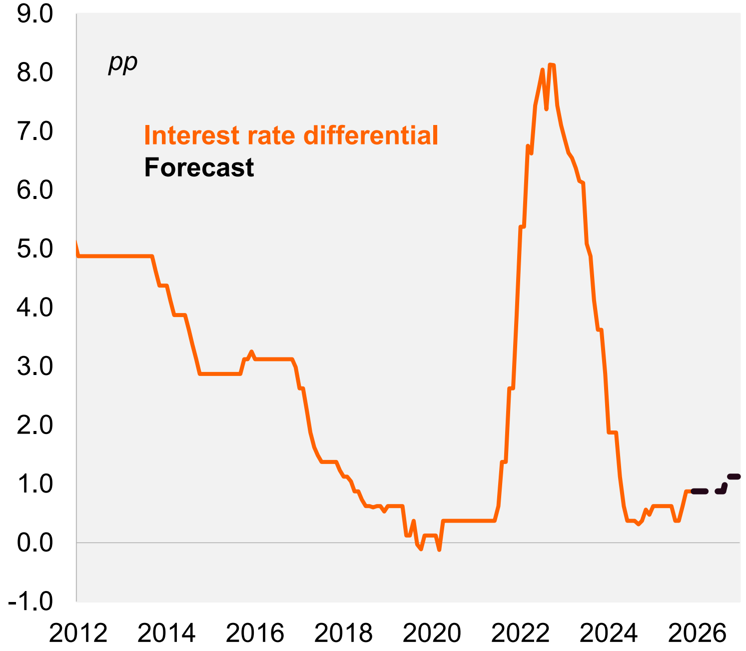
Interest rate differentials set to gradually increase.

- The CLP evolution during most of 2H25 was at the upper bound of our forecast range, but dynamics post election have exceeded expectations.
- A 2Q-3Q tariff announcement on copper that may end US stockpiling poses a price correction risk.

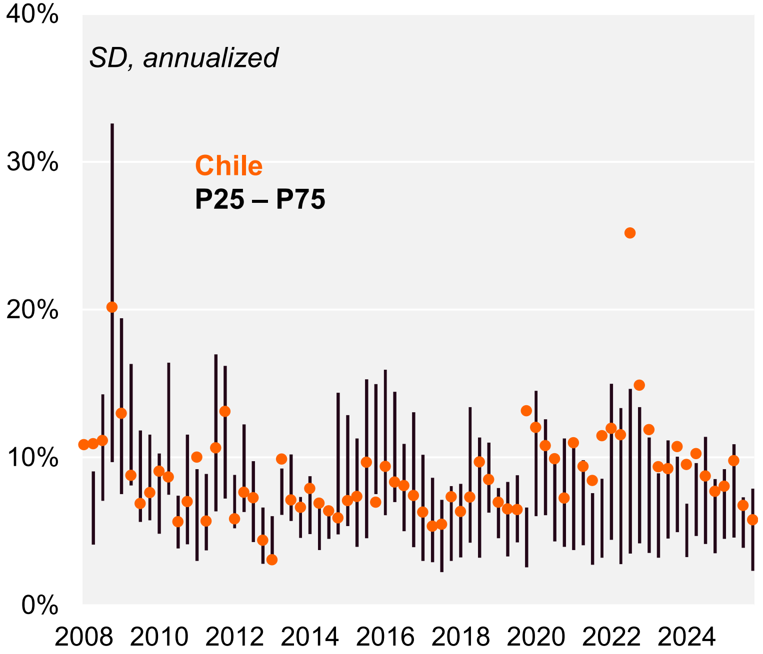
USDCLP: Spot & forecast



Interest rate differential (Chile-US)



EM currency volatility



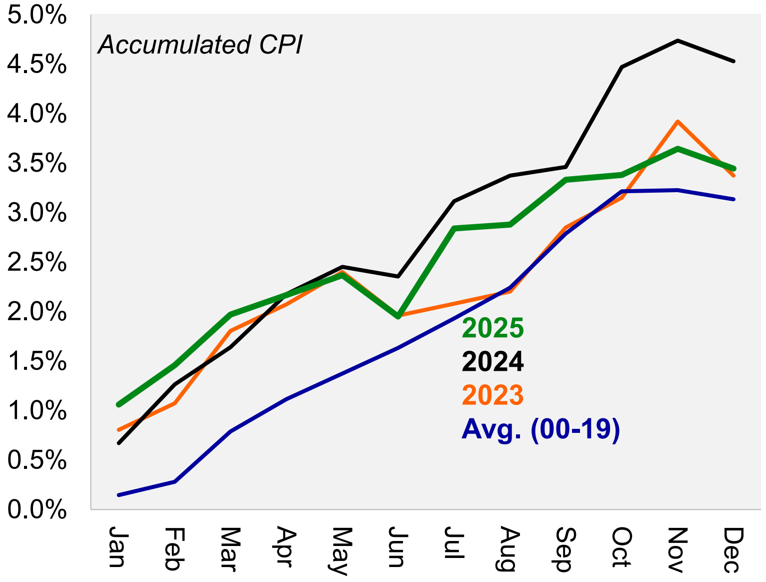
Source: Bloomberg, BCCH, Itaú.

3. After five years above the 3% target, inflation is set to average 2.7% in 2026.

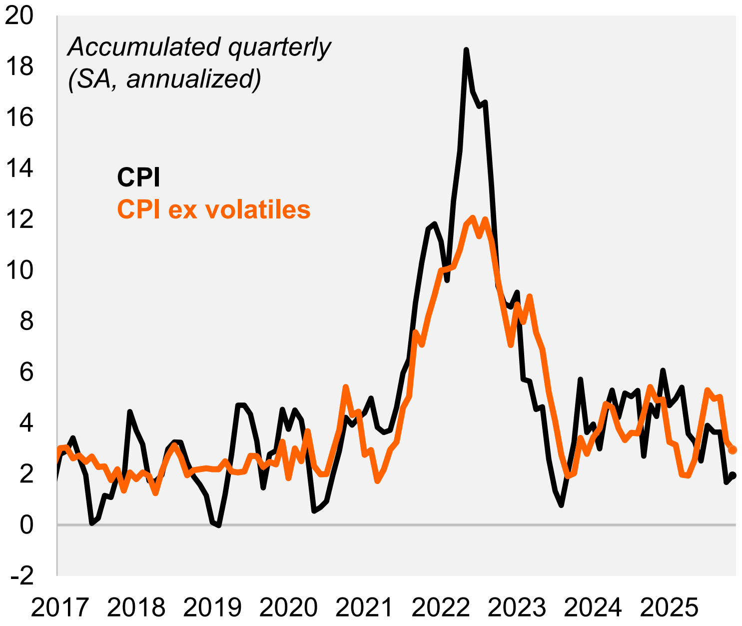
Inflation pressures during 4Q25 undershot expectations.

- The drag from tradable prices amid low oil prices has increased, while recent CLP dynamics will sustain low pressures ahead.
- Sequential pressures from services have normalized amid limited second-round effects from higher wages and production prices.

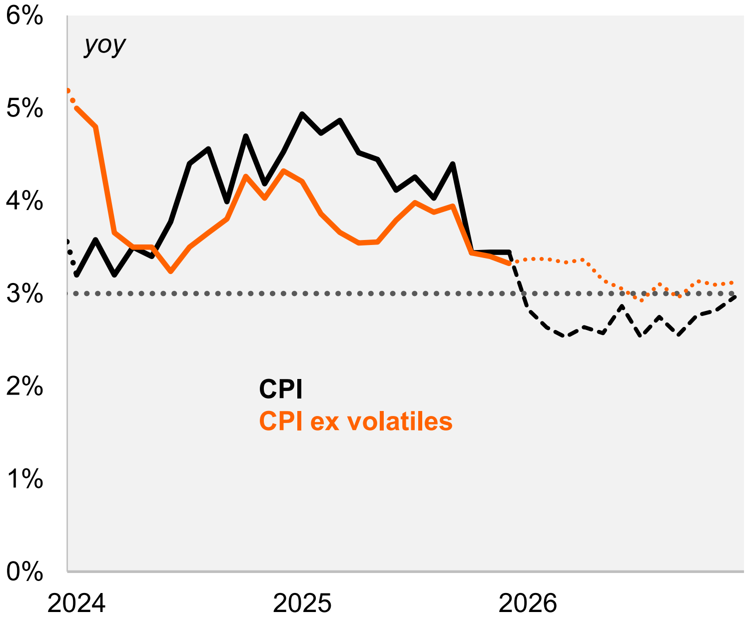
Inflation dynamics converge towards historical norms in 4Q25



Contained sequential pressures



Inflation set to drop sharply in 1Q26



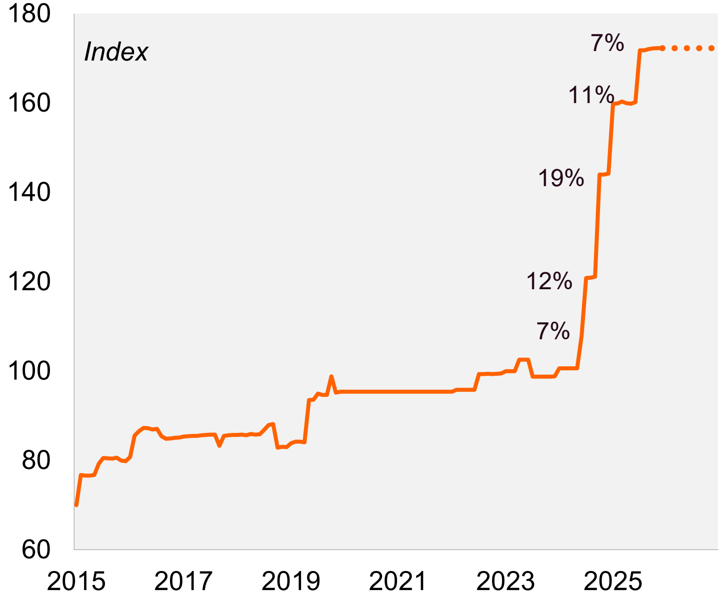
Source: INE, BCCh, Itaú

3. After five years above the 3% target, inflation is set to average 2.7% in 2026.

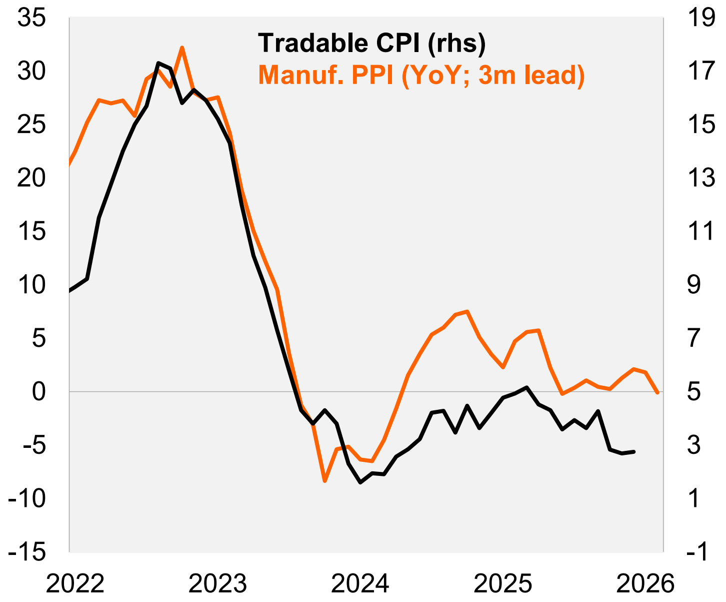
The lack of significant electricity and minimum wage hikes support lower inflation compared to recent years.

- The recovery of the CLP, excess global supply of goods amid tariff barriers and low oil prices will see goods inflation fall sharply.
- **With the economy rebalanced, services inflation will hover near its 4% trend.**
- **We expect inflation to end the year at 3%, and average 2.7%. Risks tilt towards a more significant inflation dip driven by goods inflation.**

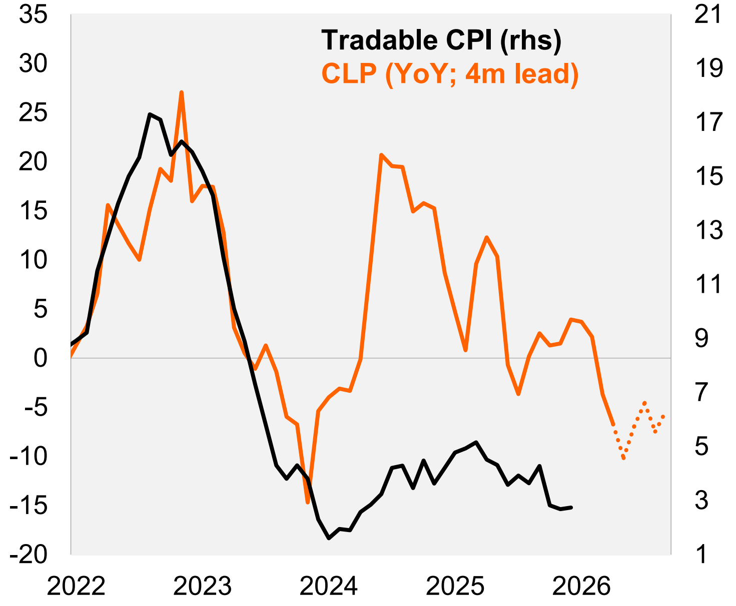
Stable electricity prices ahead



PPI and Tradable Inflation



CPI and Tradable Inflation



Source: INE, BCCh, Itaú

4. What could trigger a hiking or cutting cycle?

With the 25bp cut to 4.5% in December, the central bank has undertaken the bulk of the expected cutting cycle.

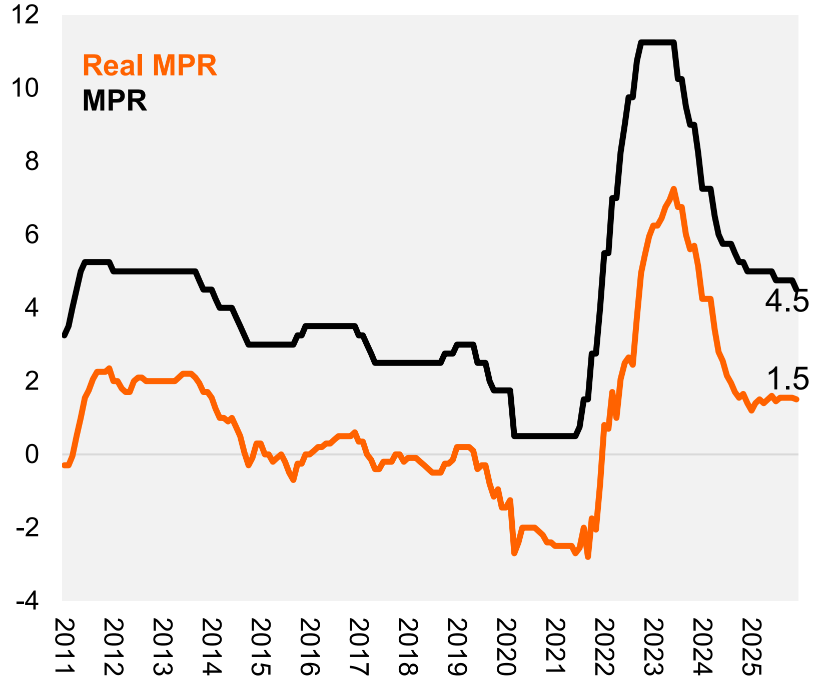
- The updated rate path signals a final 25bp cut during the latter half of 2026.
- The nominal neutral rate range estimate was raised to 3.75%-4.75% (up 25 bps from the previous estimate) on the back of global developments.
- In our view, there is no rush to implement the final cut of the cycle. Monetary policy is near neutral and comes after a prolonged battle at converging inflation to the target. We believe the Board will favor a cautious approach, evaluating inflation and activity dynamics during the start of the year before cutting for the final time in the cycle.

Monetary Policy Rate Path*

	MPR Path (Qrtly Avg.)			Change (PP)	
	Jun25	Sep25	Dec25	Sep25-Jun25	Dec25-Sep25
1Q25	5.0	5.0	5.0	0.00	0.00
2Q25	5.0	5.0	5.0	0.00	0.00
3Q25	4.8	4.8	4.8	0.05	0.00
4Q25	**4.5**	**4.7**	4.7	**0.20**	**0.00**
1Q26	4.3	4.5	4.5	0.15	0.00
2Q26	4.3	4.5	4.5	0.25	0.00
3Q26	4.1	4.3	4.3	0.25	0.00
4Q26	**4.0**	**4.3**	4.3	**0.25**	**0.00**
1Q27	4.0	4.1	4.3	0.08	0.17
2Q27	4.0	4.0	4.3	-0.02	0.25
3Q27		4.0	4.3		0.25
4Q27			4.3		

*Average of 33% Confidence Interval

Monetary Policy (%)



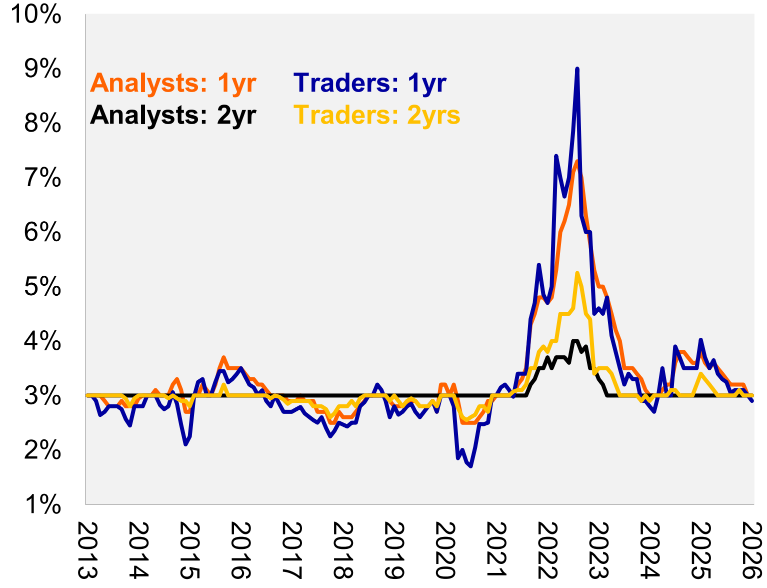
Source: BCCh, Itaú.

4. What could trigger a hiking or cutting cycle?

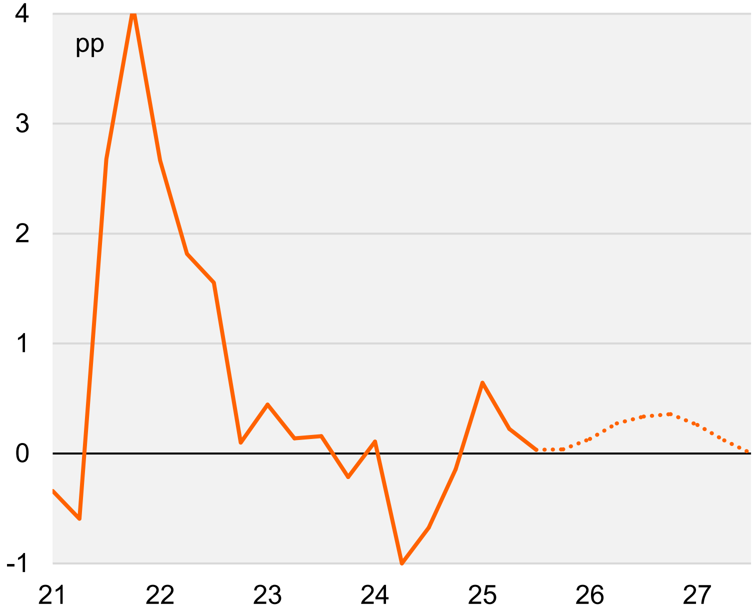
The inflation outlook is set to weigh up opposing pressures.

- **The CLP recovery will drag prices down, but a terms-of-trade led economic rebound could boost medium-term inflation pressures.**
- The evolution of medium-term inflation expectations is the key trigger in initiating a policy response. After a sustained period of above target expectations, surveys reflect a CPI outlook anchored to the 3% target.
- The direction of the next MP cycle will depend on whether the global scenario prolongs an above-potential economic recovery, justifying tighter MP to keep CPI expectations anchored. Alternatively, there is the risk that several disinflationary supply factors (oil, CLP), in conjunction with a possible global slowdown leads the BCCh to take rates below neutral.
- While our scenario sees rates at the 4.25% neutral level, the balance of risks lean towards higher rates given our growth bias.

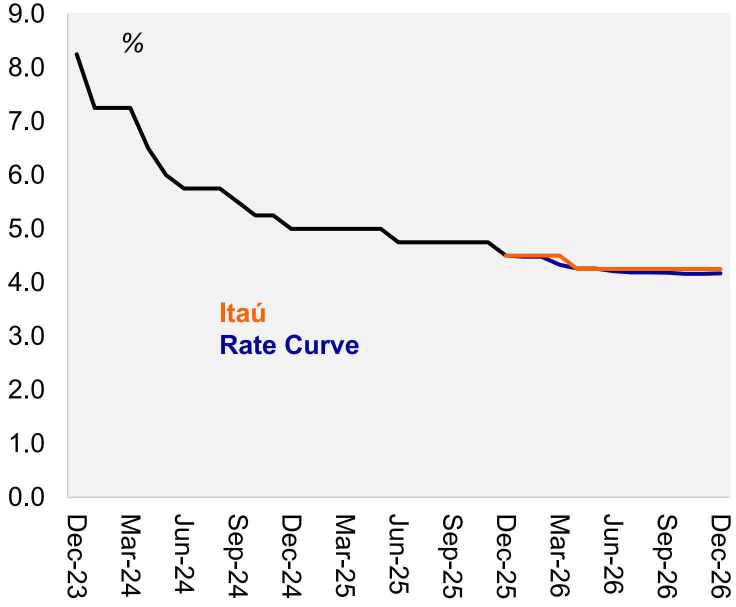
Anchored inflation expectations



Output gap transitorily positive



Rate path points to limited action

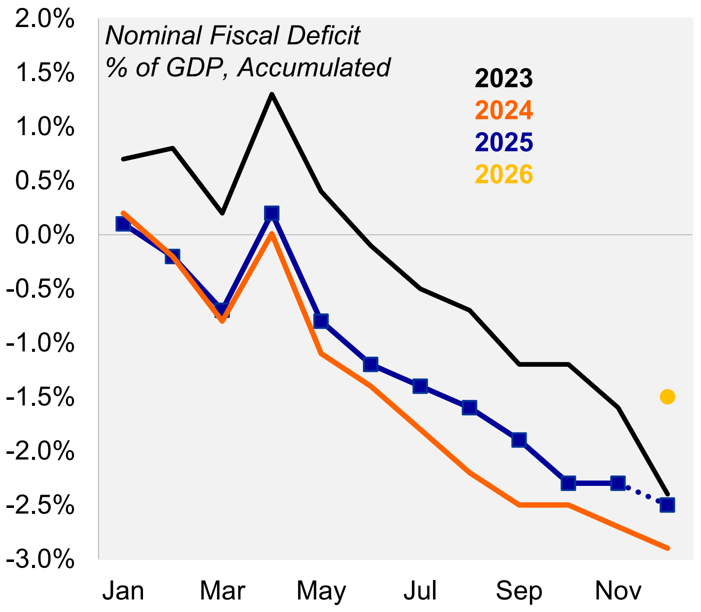


5. How swift can the fiscal consolidation unfold?

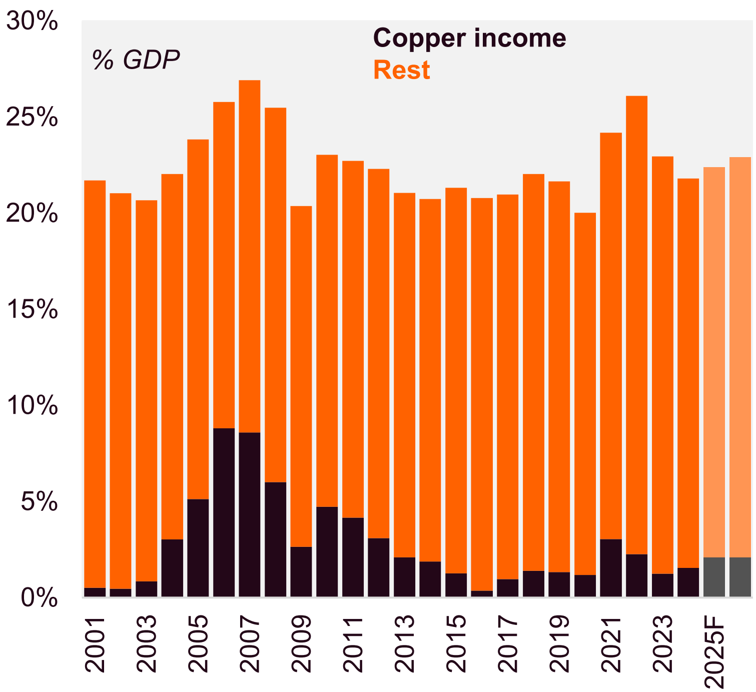
Chile has continued to miss fiscal targets; the new administration targets greater efficiency and spending cuts, while copper prices are at record levels.

- We forecast the 2025 nominal deficit at 2.5% of GDP (2.8% in 2024), and falling to 1.3% this year (-0,2pp), primarily due to revenue improvements.
- If the current level of copper prices persists, along with the uptick in lithium prices, revenues could jump by at least 1% of GDP, lowering financing needs and eventually leading to much-needed savings in the Stabilization Fund.

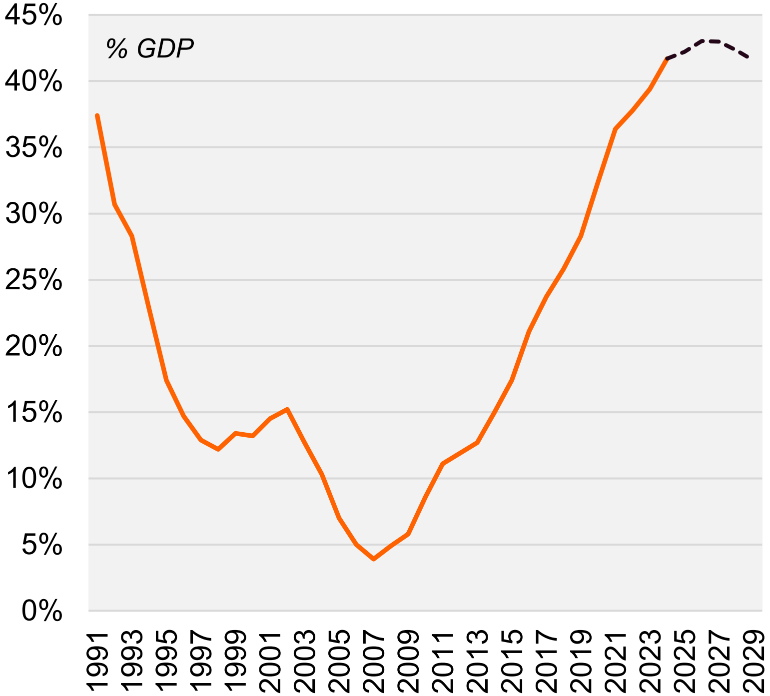
Room for a swifter consolidation



Copper revenue may exceed estimates



Aiding gross debt dynamics



Source: CFA, Dipres.

CHILE | Forecasts

With the Chilean economy broadly balanced, global developments will be key in determining how the economy performs. Elevated terms-of-trade favor an investment recovery. Domestic advancements on reducing red-tape would provide an additional investment tailwind.

	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**	2.4	**2.6**	2.4	**2.3**	2.2
Nominal GDP - USD bn	302	336	330	**348**	346	**395**	389	**423**	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**	17,141	**19,424**	19,140	**20,707**	20,707
Unemployment Rate - year avg	7.9	8.7	8.5	**8.6**	8.5	**8.3**	8.3	**8.1**	8.3
Inflation									
CPI - %	12.8	3.9	4.5	**3.5**	-	**3.0**	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**	-	**880**	880	**860**	860
Trade Balance - USD bn	3.6	13.8	21.0	**20.8**	-	**22.0**	20.0	**20.0**	19.0
Current Account - % GDP	-8.8	-3.1	-1.5	**-2.5**	-2.6	**-2.2**	-2.4	**-2.3**	-2.4
Foreign Direct Investment - % GDP	6.2	5.5	3.8	**4.2**	4.2	**4.3**	4.2	**4.0**	3.9
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	-1.7	**-1.4**	-1.4	**-0.1**	-0.3	**0.4**	0.3
Nominal Balance - % GDP	1.1	-2.4	-2.8	**-2.5**	-2.5	**-1.3**	-1.5	**-1.0**	-1.1
Gross Public Debt - % GDP	38.0	39.4	41.7	**42.4**	42.4	**42.9**	43.0	**43.0**	43.1
Net Public Debt - % GDP	20.5	23.2	26.0	**27.1**	27.1	**27.6**	27.6	**27.6**	27.7

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

Macro Research – Itaú

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