



Macroeconomic Research

CHILE: Top themes for 2025

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1. Will the recovery in mining investment spill over to the non-mining sector?

- Imports of machinery and equipment favor an investment improvement, but significant headwinds persist.

2. Heading for the fifth year of inflation above the 3% target.

- A large electricity price adjustment at the start of the year and indexation pressures will prevent a swifter inflation convergence path.

3. Will the recovery in fiscal revenues in 2025 allow for a significant fiscal consolidation?

- Continuing to miss targets would further tarnish Chile's fiscal credibility.

4. Chilean peso remains under pressure.

- Low-interest rate differentials and exposure to China will keep the CLP volatile.

5. Will the BCCh insist on heading to the neutral nominal rate?

- Local and global uncertainty favor caution in the short-term.

6. A presidential election year; global evidence points to an anti-incumbency sentiment.

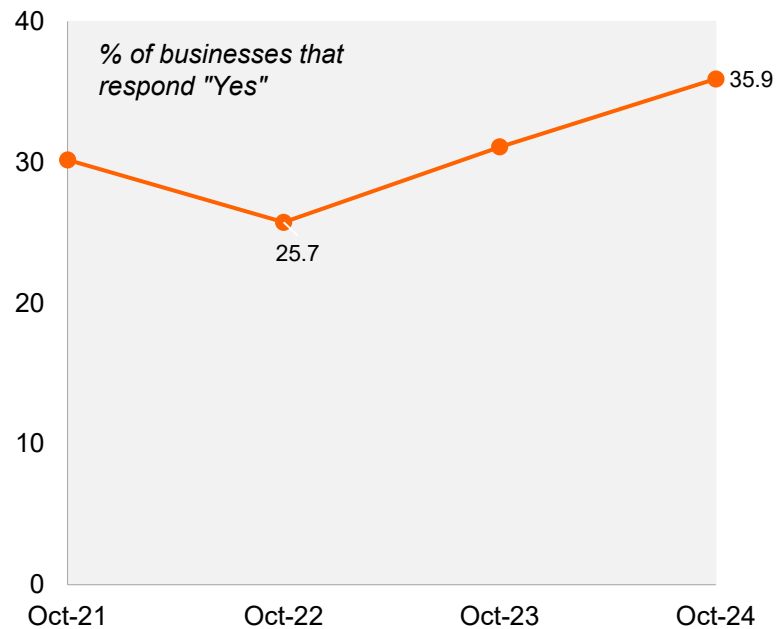
- Leading up to the election political efforts will be focused on reaching a pension reform agreement.

1. Will the recovery in mining investment spill over to the non-mining sector?

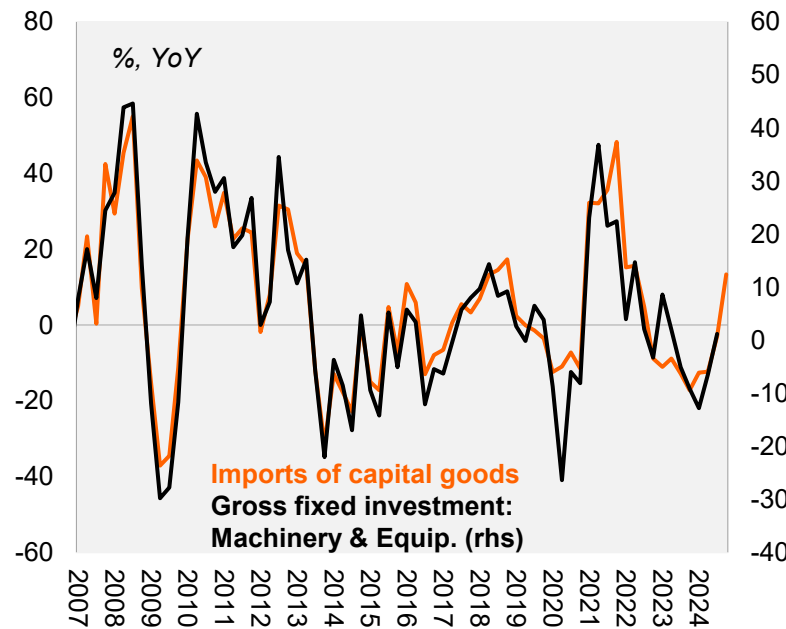
Gross Fixed Investment contracted 1.1% in 2023 and by a similar rate last year. Leading indicators point to an investment recovery in 2025.

- Imports of capital goods, particularly machinery for mining, and FDI inflows point to an investment rebound in 2025 of around 3%.
- Nevertheless, geopolitical risks that heighten global uncertainty may see greater domestic caution in investment decision-making.

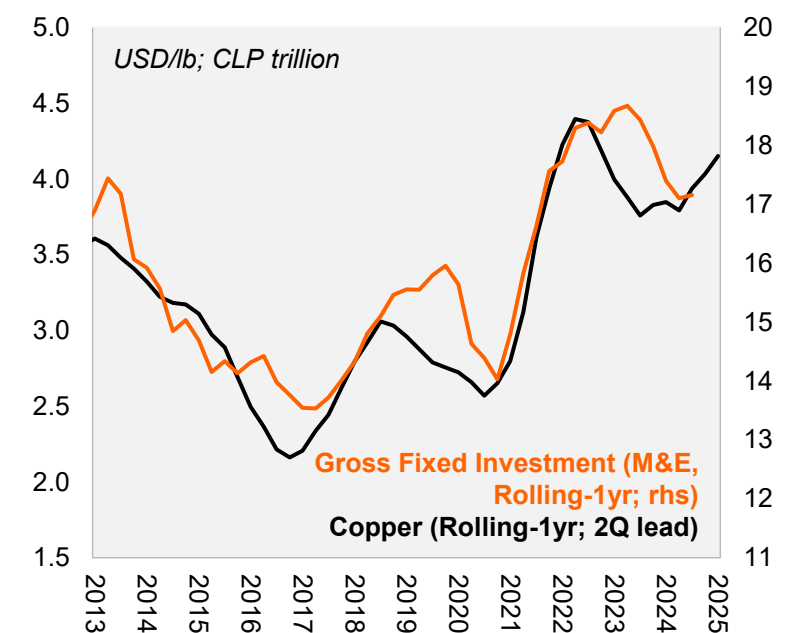
Planning to invest next year?



Investment and Capital Goods Imports



Copper prices and GFI

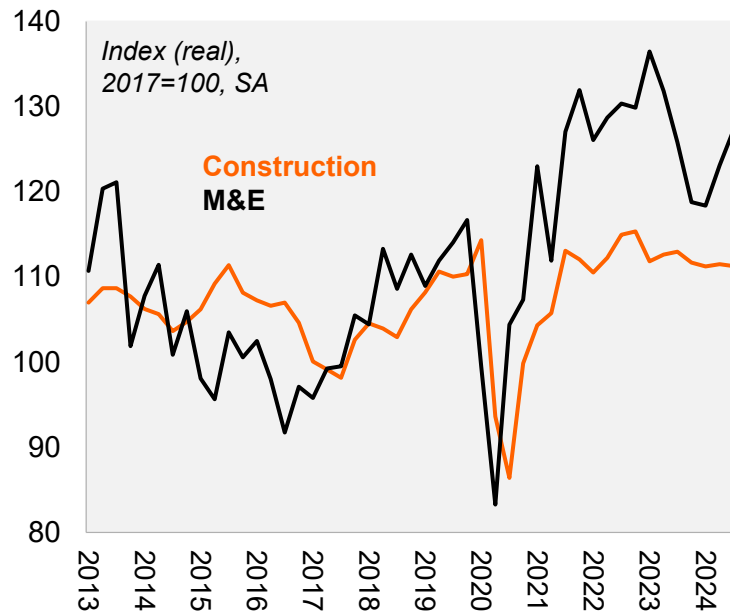


1. Partial investment recovery expected but will it spill over to the non-mining sector?

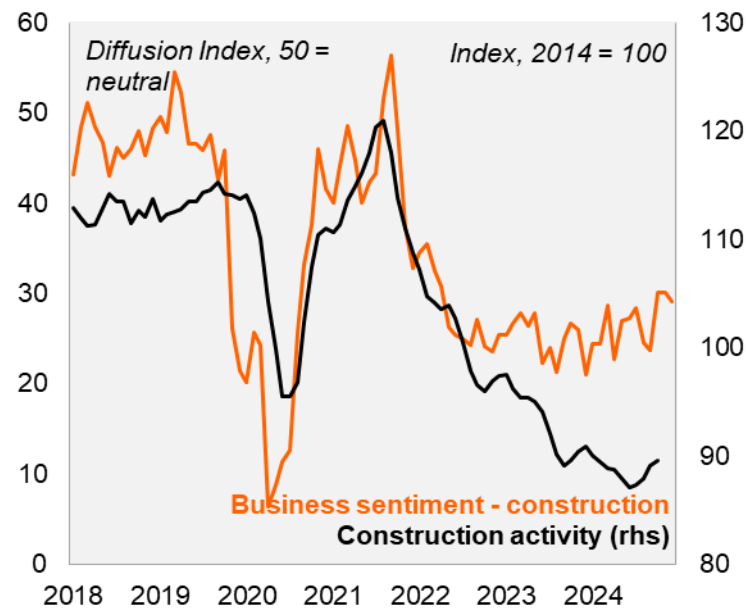
Weak construction has played a key role in the investment decline and indicators suggest it will remain sluggish ahead.

- While construction sentiment has stabilized, it remains at low levels. Commercial loan creation has not shown signs of rebounding despite lower interest rates.
- Authorized housing building space is at record lows, and more stringent construction regulation over the last decade is likely to limit investment appetite.

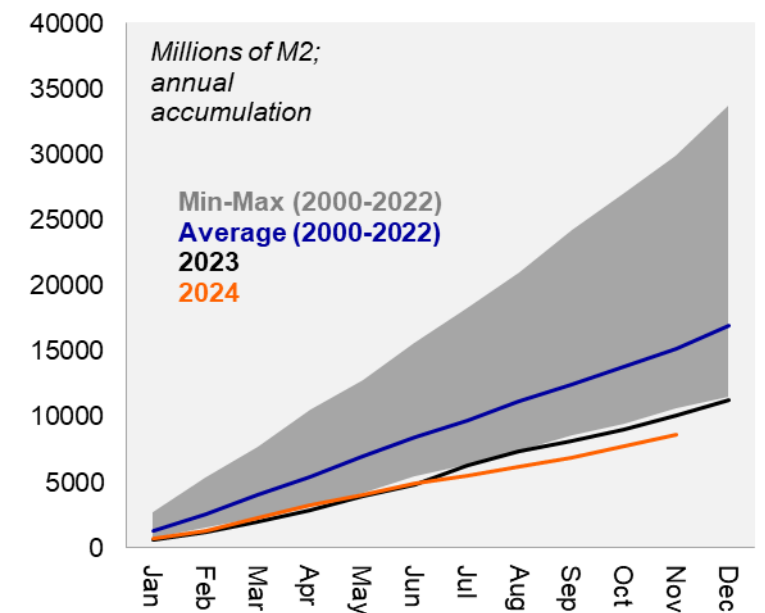
Gross Fixed Investment



Sentiment and Construction



Housing: Authorized building space

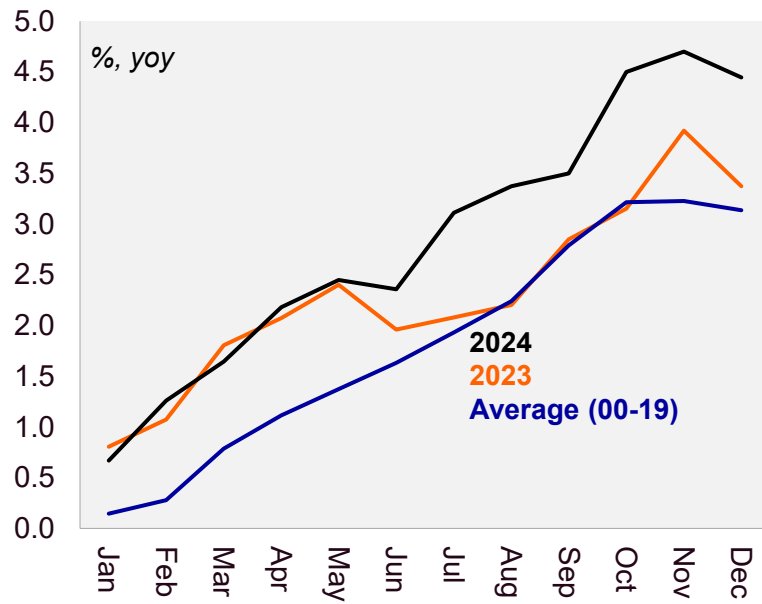


2. Heading for the fifth year of inflation above the 3% target.

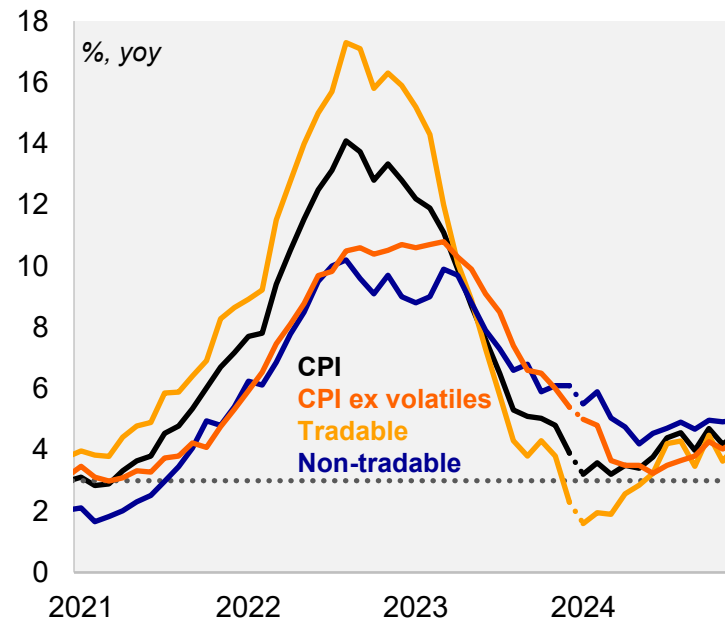
Inflation ended 2024 at 4.5%, below the central bank's 4.8% and our 4.7% call.

- The drag from tradable prices at the start of 2024 diminished amid weakened CLP dynamics.
- Successive minimum wage adjustments since 2022, resulting in over a 40% nominal increase (around double the CPI gain), was a key cost factor.
- Despite CPI ending below the BCCh's December estimate, pressures at the margin remain elevated (near 5% for core prices).

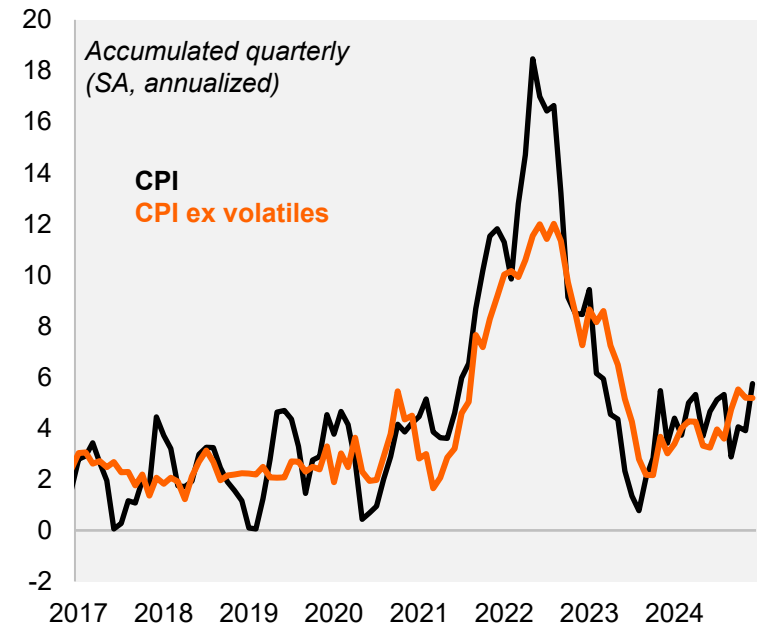
Accumulated CPI



Above-target inflation across the board



Elevated sequential pressures

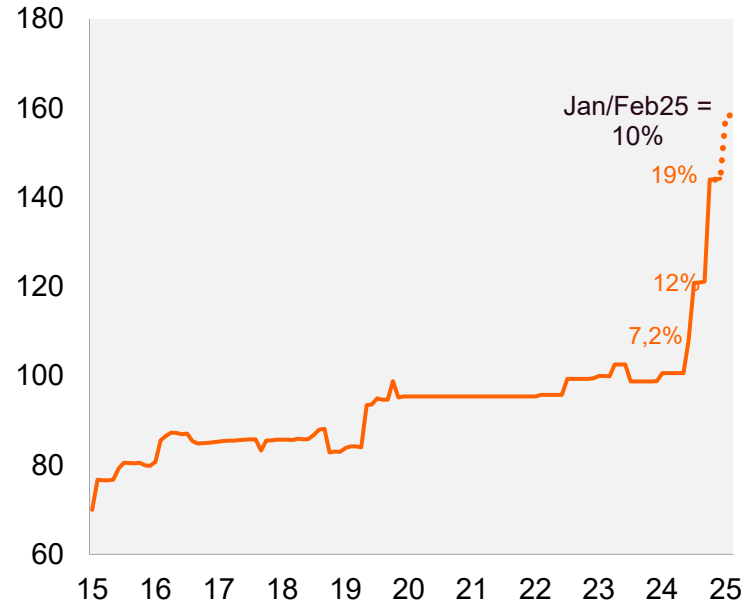


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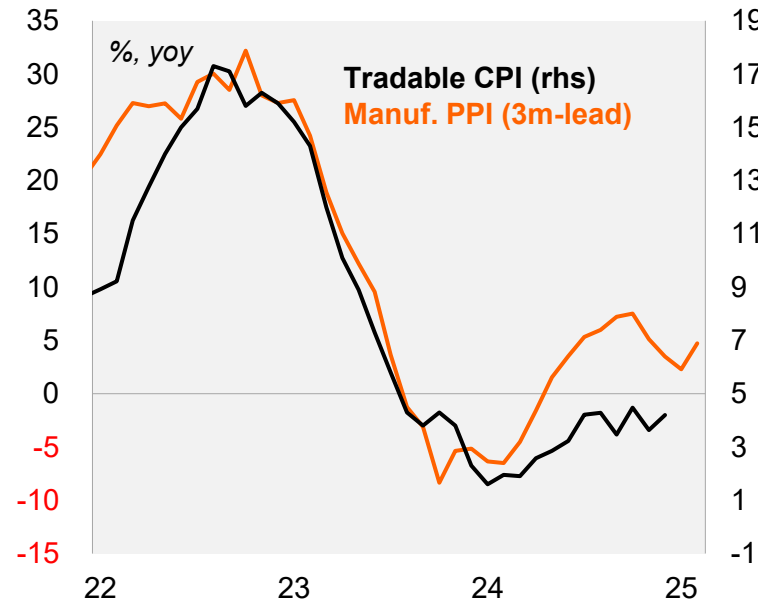
Payback from December and a higher CLP path behind a larger 2025 inflation call

- The downside CPI surprise in December (-0.2%MoM: -14bps surprise) was led by volatile items linked to Cyber sales events that will likely rebound in January (adding 0.1pp to our prior call).
- Additionally, an expected 10% accumulated electricity price hike at the start of the year will keep price pressures elevated.
- A higher expected average CLP path will add 0.2pp to our call.
- We now expect 25YE inflation of 4% (3.7% previously).

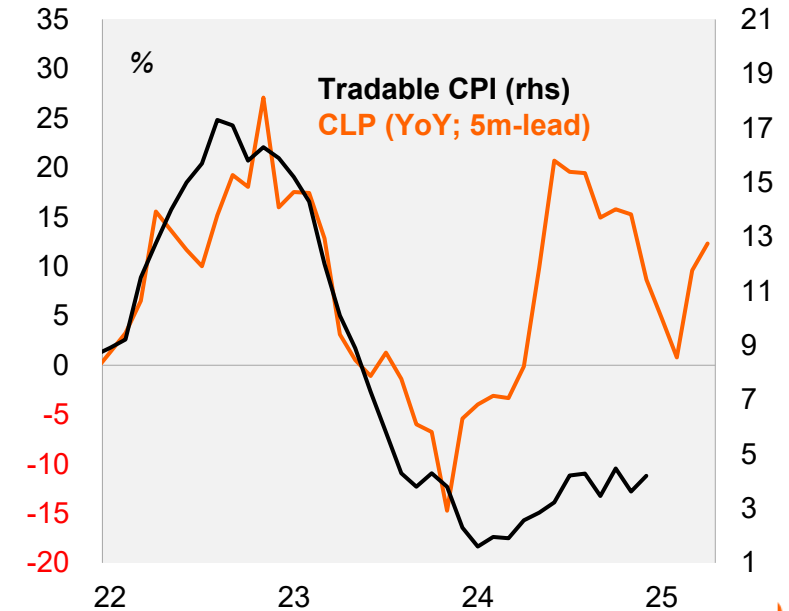
Electricity prices to adjust further



PPI & Tradable Inflation



CLP & Tradable CPI

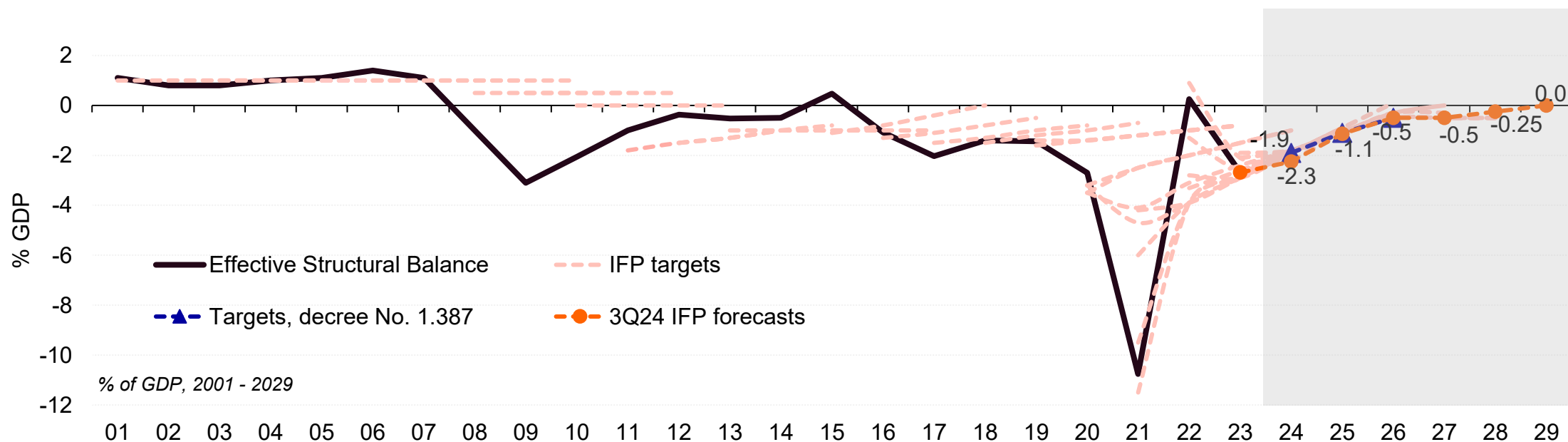


3. Will the recovery in fiscal revenues in 2025 allow for a significant fiscal consolidation?

Continuing to miss targets would tarnish Chile's fiscal credibility further.

- After the significant revenue forecast miss in 2024, Congress unprecedentedly forced the administration to cut the original 2025 budget proposal.
- Since the 2025 Budget discussions, higher inflation and interest rate expectations increase growth headwinds that may once again challenge revenue estimates.

Structural balance, targets & convergence paths

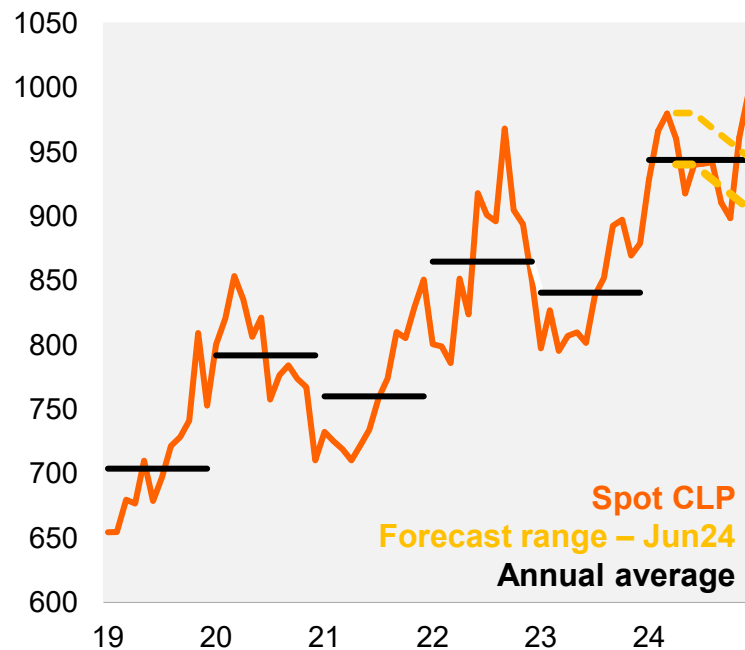


4. Chilean peso remains under pressure.

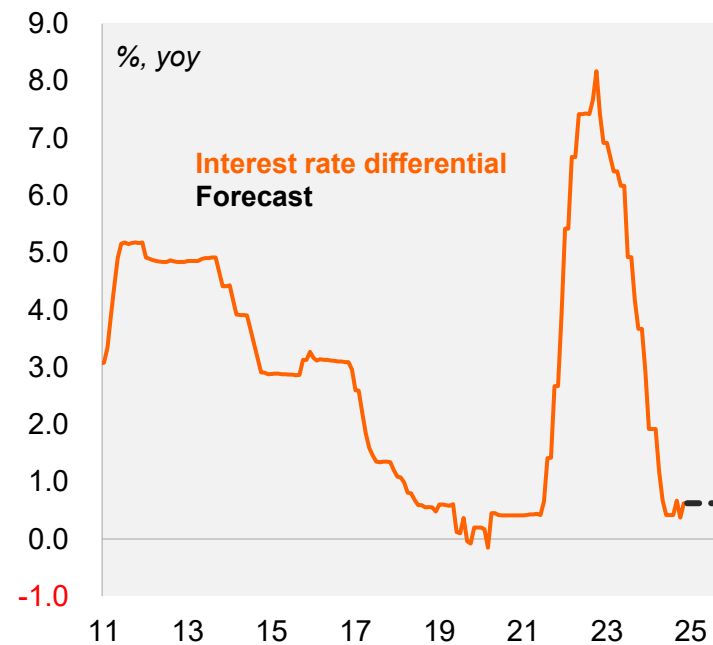
Low-interest rate differentials and exposure to China will keep the CLP volatile.

- The CLP evolution during the most of 2H24 came in at the lower bound of our forecast range, but dynamics post US election have exceeded expectations.
- The extensive rate normalization process in Chile has left the currency more vulnerable to swings in global risk aversion and investor sentiment.

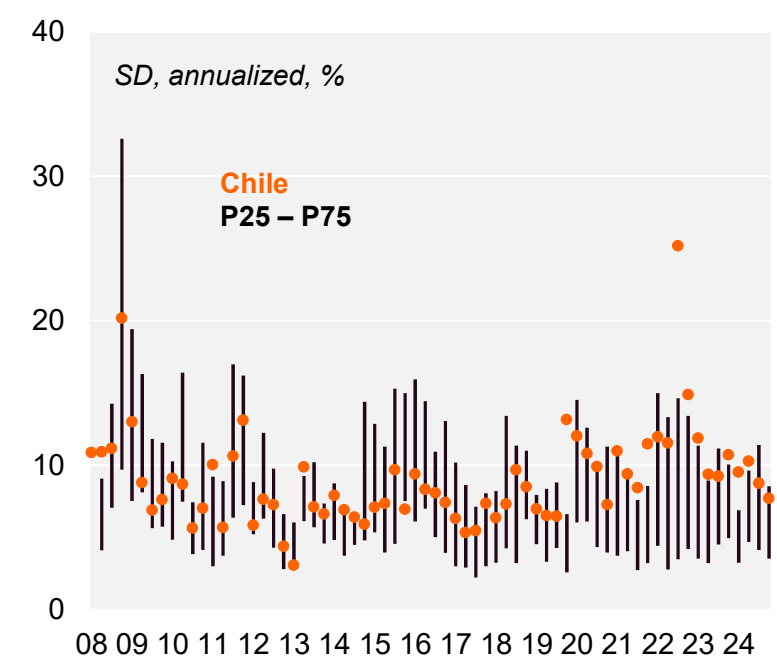
USDCLP: Spot & forecast



Interest rate differential (Chile-US)



EM currency volatility

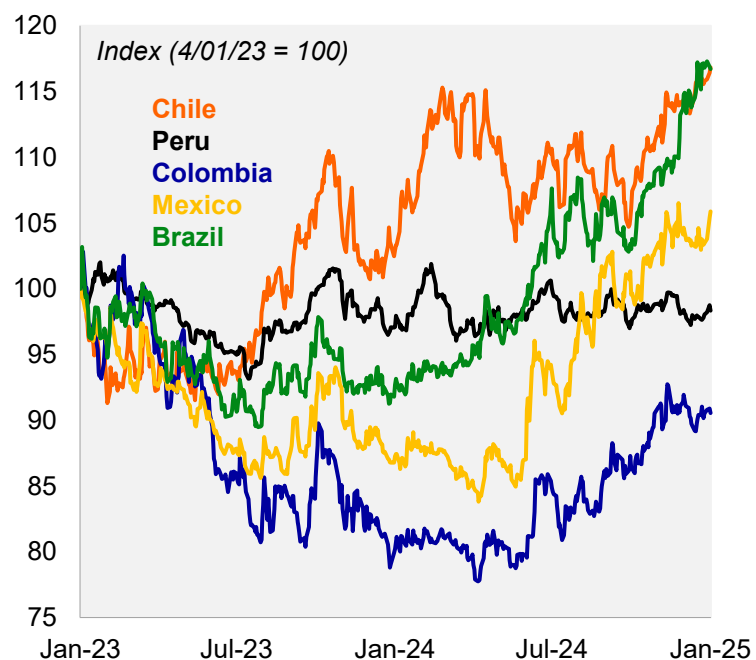


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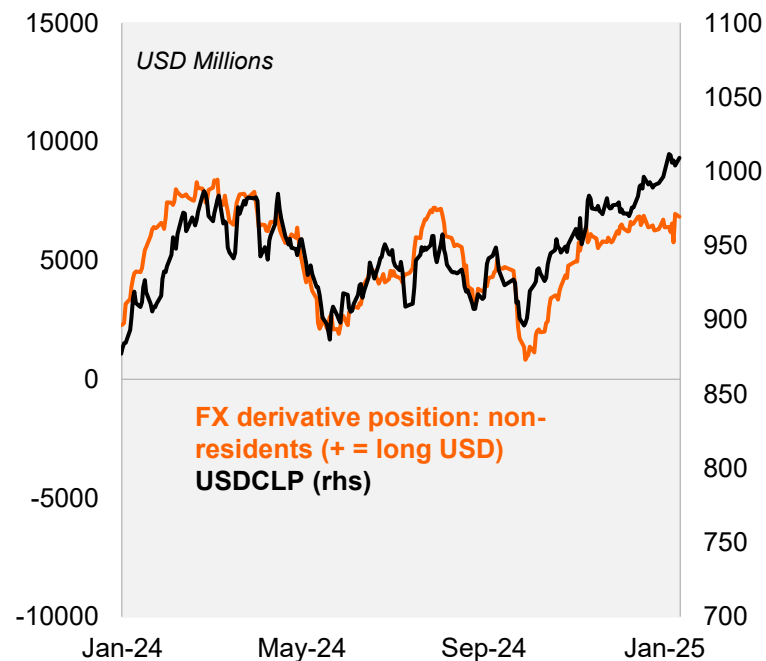
Some short-term overshooting is likely occurring.

- Low liquidity at the end and start of the year has likely amplified recent currency moves.
- Locals, rather than foreigners, seem to have driven part of the recent weakening. We expect the Ministry of Finance to sell between USD 7-8 billion this year.
- While we retain our 955 USDCLP YE call, we have incorporated a higher path of around 2%.

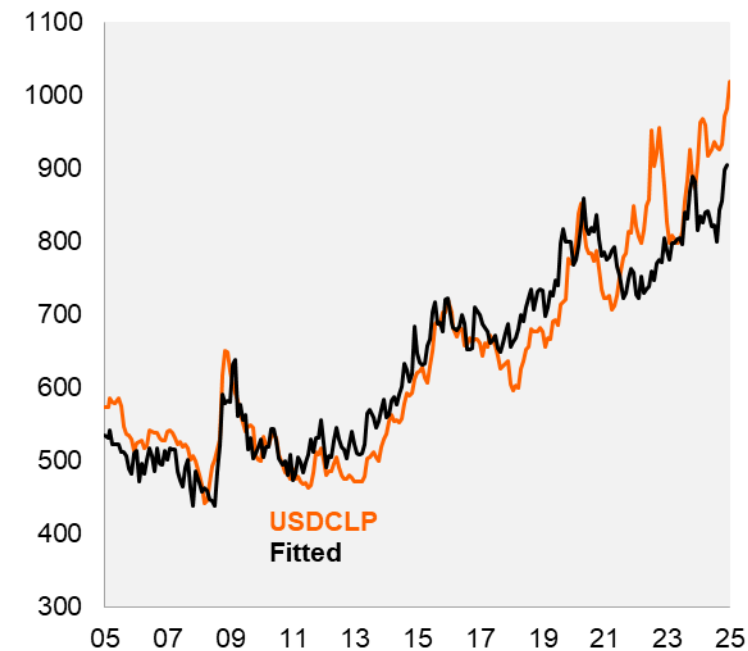
Regional currencies



Derivative positions; Non-Residents



USDCLP vs Model

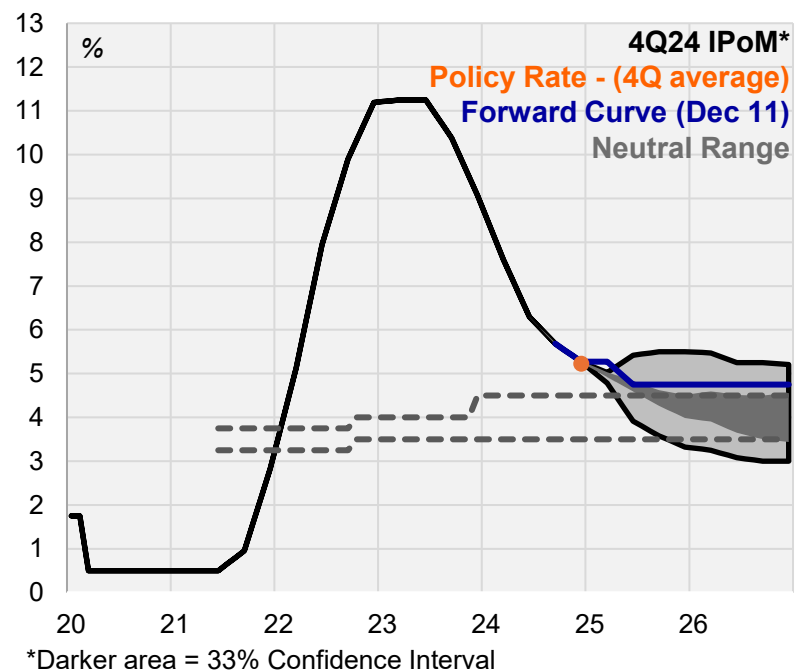


4. Will the BCCh insist on heading to the neutral nominal rate?

With the 25bp cut to 5% in December, the central bank has undertaken the bulk of the expected cutting cycle.

- The updated rate path saw a minor upside revision, but the endpoint remained at 4%.

Rate Corridor



MPR and 33% confidence Interval

%, simple average of borders

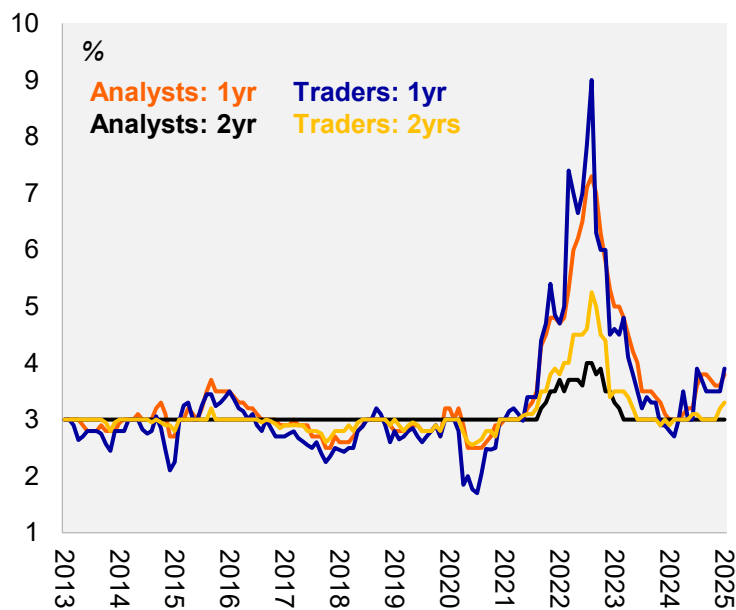
	Sep	Dec	Difference
24.II	6.29	6.29	0.00
24.III	5.68	5.68	0.00
24.IV	5.27	5.27	0.00
25.I	4.82	4.98	0.15
25.II	4.49	4.72	0.22
25.III	4.25	4.44	0.19
25.IV	4.13	4.25	0.12
26.I	4.04	4.25	0.21
26.II	4.00	4.08	0.08
26.III	3.97	4.00	0.03

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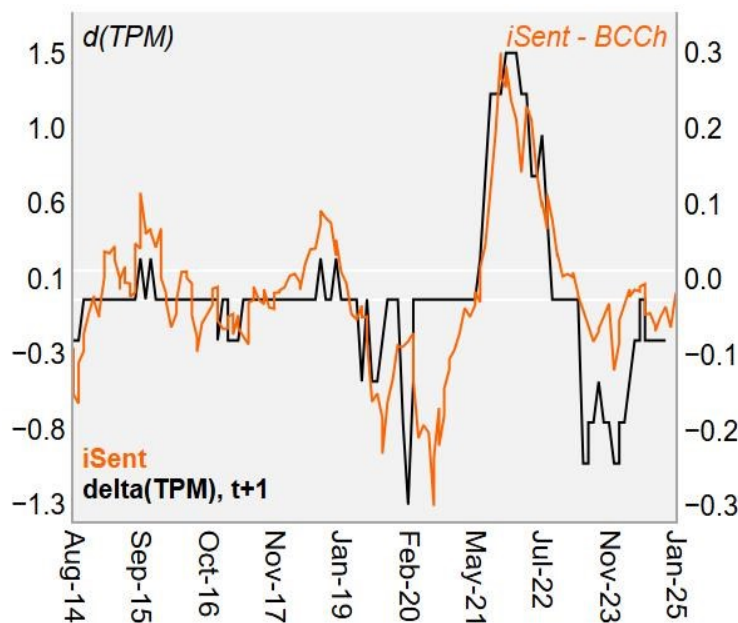
Rising inflation expectations, a higher FFR path and global uncertainty favor caution ahead.

- With domestic inflation expectations showing signs of rising, we expect a rates-on-hold decision later this month.
- While the key two-year median analyst expectation is anchored to the 3% target, the distribution shows more than 40% expect higher inflation (up from 26% in September).
- Our call to eliminate rate cuts in the US supports a higher domestic rate path. We now see the MPR remaining at 5% this year (+50bps from our December scenario).

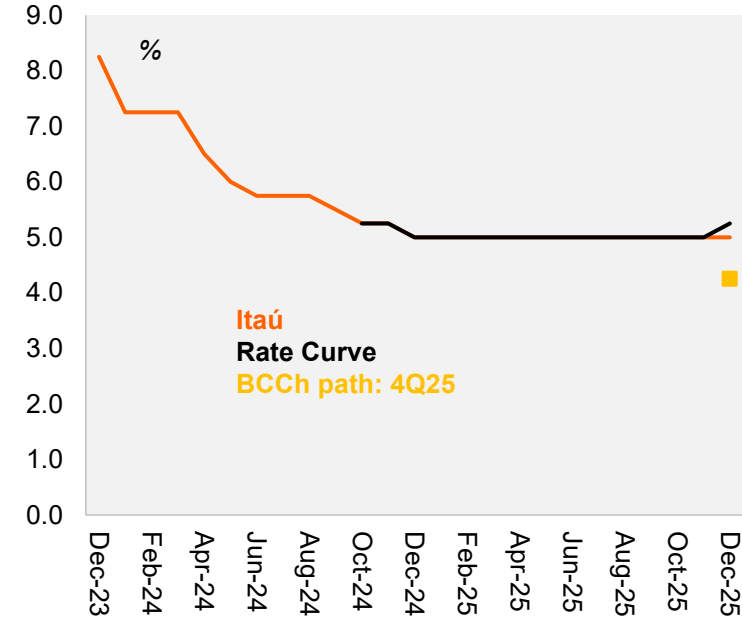
Rising inflation expectations



Latest communication signals a pause



Policy Rate Path above the BCCh

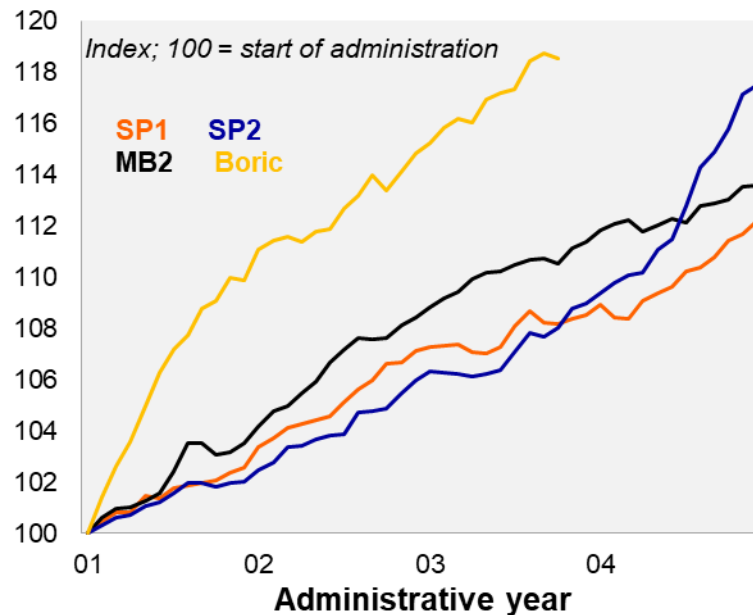


6. A presidential election year; global evidence points to an anti-incumbency sentiment.

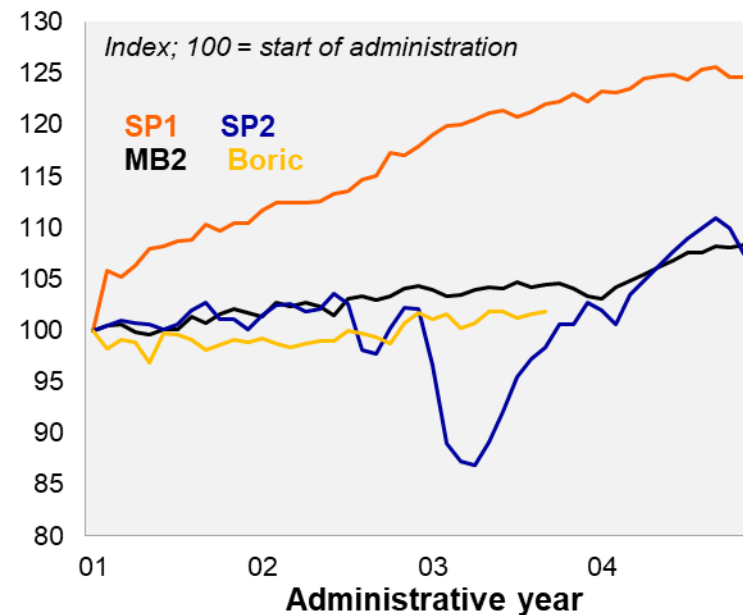
Polls point to a swing back to a center-right administration. Leading up to the election political efforts will be focused on reaching a pension reform agreement.

- Macro developments will likely challenge the success of electing a continuity candidate.
- Long-time politician Evelyn Matthei is consolidating her candidacy among the right. Polls show her winning a runoff against all challengers with Michelle Bachelet posing the tightest race.
- Closing the chapter on pensions and focusing of reducing investment red tape and stimulating productivity will need to be targets of any incoming administration.

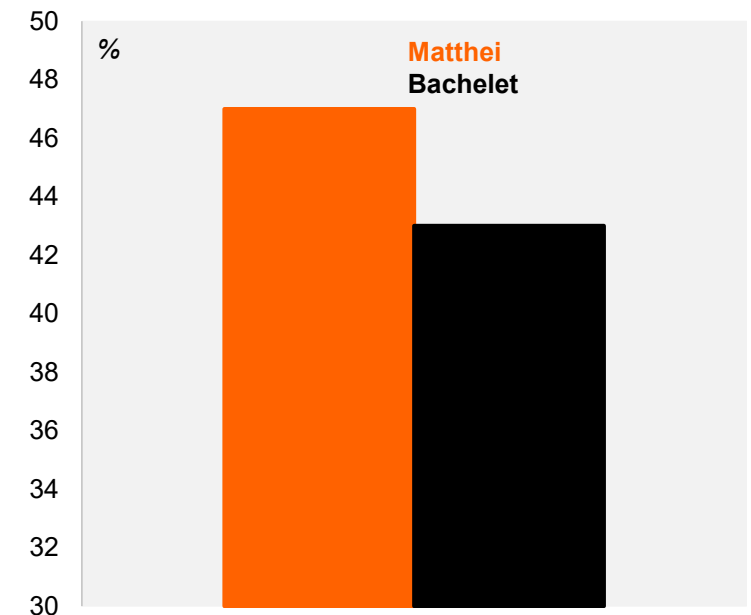
Price level evolution



Activity level evolution



Presidential run-off scenario



CHILE | Forecasts

Given a minimal interest rate differential, our revised scenario of no cuts in the US and rising domestic inflation expectations leads us to raise our YE25 MPR call by 50bps to 5% (no cuts this year). A higher January CPI expectation and increased CLP path results in inflation of 4% this year (+30bps). Risks to activity tilt downwards.

	2019	2020	2021	2022	2023	2024F		2025F		2026F	
						Current	Previous	Current	Previous	Current	Previous
Economic Activity											
Real GDP growth - %	0.6	-6.1	11.3	2.1	0.2	2.2	2.2	1.9	1.9	2.0	2.0
Nominal GDP - USD bn	273	254	311	303	332	311	316	319	324	352	352
Population (millions)	19.1	19.5	19.7	19.8	20.0	20.1	20.1	20.2	20.2	20.3	20.3
Per Capita GDP - USD	14,312	13,068	15,810	15,294	16,617	15,490	15,735	15,795	16,038	17,331	17,331
Unemployment Rate - year avg	7.2	10.8	8.9	7.9	8.7	8.5	8.5	8.5	8.5	8.2	8.2
Inflation											
CPI - %	3.0	3.0	7.2	12.8	3.9	4.5	-	4.0	3.7	3.0	3.0
Interest Rate											
Monetary Policy Rate - eop - %	1.75	0.50	4.00	11.25	8.25	5.00	-	5.00	4.50	4.50	4.50
Balance of Payments											
CLP / USD - eop	753	711	851	851	879	996	-	955	955	930	930
Trade Balance - USD bn	3.0	18.9	10.3	3.7	15.3	22.1	-	21.0	21.0	18.0	18.0
Current Account - % GDP	-5.3	-1.9	-7.4	-8.6	-3.6	-2.5	-2.5	-2.6	-2.6	-2.9	-2.9
Foreign Direct Investment - % GDP	5.0	4.5	4.9	6.0	6.6	5.3	5.2	4.9	4.8	4.8	4.8
International Reserves - USD bn	40.7	39.2	51.3	39.2	46.3	44.4	-	50.0	50.0	58.0	58.0
Public Finances											
Primary Balance - % GDP	-1.9	-6.3	-6.9	-1.6	-0.7	-1.9	-1.9	-0.7	-0.7	0.2	0.2
Nominal Balance - % GDP	-2.9	-7.3	-7.7	1.1	-2.4	-3.0	-3.0	-1.8	-1.8	-1.0	-1.0
Net Public Debt - % GDP	7.9	13.4	20.2	20.4	23.1	26.6	26.4	27.5	27.5	27.5	27.5

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

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