Macro scenario - Chile

September 19, 2025

In no rush to cut again

- The Central Bank is in the fine-tuning stage of its current cycle. The timing of further cuts will depend primarily on the evolution of core inflation. Anchored inflation expectations, a sluggish labor market, and weak commercial credit dynamics still support the plan to eventually bring the policy rate to the center of the neutral nominal range. However, still-high sequential core inflation, elevated wage growth, and resilient non-mining activity argue for a gradual final phase for the end of the cycle. With only one additional CPI data point before the October 28 meeting, we believe the odds of a cut then are low. For now, we expect one 25-bp cut in December to 4.5%, and a final cut to 4.25% during the first half of 2026, which is 25 bps above our previous scenario. A more dovish Fed will probably support the CLP.

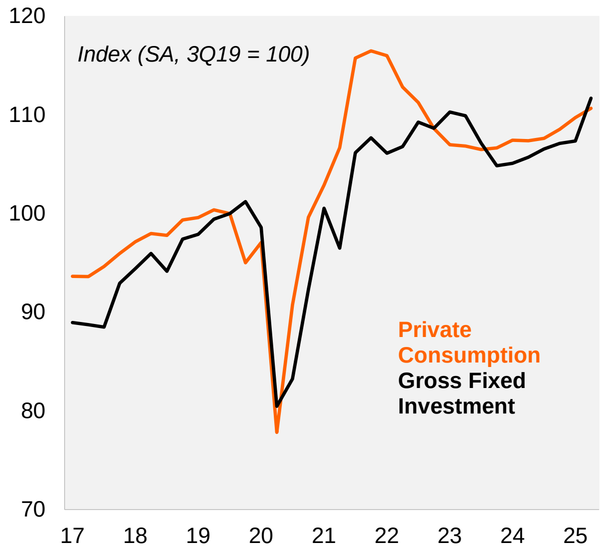
The political stage is set

Election fever is set to take center stage after September's Independence Day celebrations. Chile's 2025 general elections, scheduled for November 16, will feature a competitive presidential race with eight candidates. If no candidate wins an outright majority, a runoff will be held on December 14. The top contenders according to polls—Jeannette Jara, José Antonio Kast, and Evelyn Matthei—have prioritized economic growth in their respective electoral pitches, but have proposed different measures. Jara has advocated state-led development, increased social spending, and strategic public sector investment in sectors like lithium and green hydrogen. Kast proposes tax cuts for large companies, fiscal austerity, and deregulation to spur growth. Matthei aims for 4% GDP growth through corporate tax reductions, public spending cuts, and incentives for formal job creation. Polls currently suggest a likely runoff between Kast and Jara. Alongside the presidential vote, legislative elections will choose all 155 Lower House seats and 23 of the 50 Senate seats.

Investment rebound underway

The Chilean economy grew by a robust 3.1% YoY in 2Q25. Activity in 1Q25 was revised upward by 0.2 percentage points to 2.5%. The main drivers of annual growth were private consumption (3.1% YoY) and investment (16.2% YoY). The recovery in domestic demand led to a negative contribution from net exports, reversing a notable positive impact in recent years. On a quarterly basis, GDP rose by 0.4% QoQ/SA in 2Q25, driven by gross fixed investment (4.0% QoQ/SA). The rebound has been led by machinery and equipment, supported by large projects, improved business confidence, and favorable financing conditions. Private consumption has been bolstered by higher real labor income despite weak job creation. The continued upward revision of the medium-term outlook for private sector investment, along with the positive trend in business sentiment and lower average interest rates, consolidate expectations of strong dynamics ahead.

Investment gains momentum



Source: BCCh, Itaú.

Current account deficit widens

A USD 3.2 billion current account deficit was registered in 2Q25, exceeding our expectations, while the 1Q balance was revised from a USD 0.6 billion surplus to a deficit of USD 0.2 billion. The rolling 4Q current account balance showed a still moderate deficit of 2.2% (1.5% in 2024; 1.8% as of March). Sequentially, the CAD in 2Q reached 2.8% of GDP (SA, annualized). The rise in the deficit aligns with a recovery in domestic demand, with total consumption growing by 3% YoY and (import intensive) gross fixed investment up by 5.6% YoY in the quarter. The annual CAD is comfortably financed by net foreign direct investment into Chile (around 2.4% of GDP) comfortably financed the 2.2% CAD. Trade dynamics during 3Q signal a further narrowing of the trade surplus for goods as copper sales to the US continue to normalize. While imports of capital goods remain upbeat, low global energy prices are slowing growth of total imports.

Core inflation pressures persist

Not so fast. CPI reached 4.0% YoY in August, the lowest since April 2024, while Core CPI (excluding volatiles) remained flat from July, resulting in an annual rate of 3.9% YoY. Core goods inflation is at a lower 3.1%, while core services edged down 0.2 percentage points to 4.5%. Volatile inflation dropped 0.4 percentage points to 4.3%, returning to a rate last seen in September of the previous year. Excluding food and energy prices, inflation decreased by 40 basis points to 3.4%, the lowest rate in the past year. Sequentially, annualized headline inflation accumulated over the last quarter reached 3.6%, while core pressures ticked down 20 basis points to 5.3%, well above the 3% target. Stronger private spending, still-elevated wage pressures, and a more depreciated real exchange rate are sustaining core price pressures. Importantly, however, medium-term inflation expectations remain anchored to the 3% target.

Less easing ahead

Following the July cut, the first of the year, the Central Bank Board unanimously held the policy rate at 4.75% in September, as expected. However, the forward guidance turned hawkish, with increased concern over recent core inflation dynamics. The Board noted that the persistence of core inflation requires close monitoring before continuing the policy rate's convergence to neutral. The BCCh's updated rate path is, on average, 25 basis points higher during 2026 (year-end rate of 4.25%) compared to the June scenario. The average of the corridor's 33% confidence interval suggests another rate pause in October, followed by a 25-basis-point rate cut in December to 4.5%. The path indicates rates will be on hold during the first half of 2026, before another cut in the third quarter to 4.25%. To our surprise, the IPoM did not update the structural parameters, which is likely to occur in December. Our bias leans toward an upward revision of the real neutral rate range and the non-mining growth trend.

Higher Monetary Policy Rate Path*

	MPR Path (Qrtly Avg.)			Change (PP)	
	Mar24	Jun25	Sep25	Jun25-Mar25	Sep25-Jun25
1Q25	5.0	5.0	5.0	0.00	0.00
2Q25	5.0	5.0	5.00	0.00	0.00
3Q25	4.9	4.8	4.83	-0.16	0.05
4Q25	**4.7**	**4.5**	**4.71**	**-0.20**	**0.20**
1Q26	4.5	4.3	4.50	-0.15	0.15
2Q26	4.3	4.3	4.50	-0.08	0.25
3Q26	4.1	4.1	4.33	0.00	0.25
4Q26	**4.0**	**4.0**	**4.25**	**0.00**	**0.25**
1Q27	4.0	4.0	4.08	0.00	0.08
2Q27		4.0	4.00		-0.02

*Average of 33% Confidence Interval

Fine-tuning the MP cycle

Private sector sentiment is evolving in the right direction, with lower average inflation, falling interest rates, and a mining-led investment rebound expected to buoy economic activity. We anticipate 2025 GDP growth at 2.5%, a slight decrease of 0.1 percentage points from our previous scenario due to transitory mining supply shocks. Business confidence levels are approaching the neutral threshold, reinforcing a trend that began in early 2023. Year-to-date imports of capital goods have increased by 25% year-over-year. At the margin, there are signs that the worst of the credit slump is behind us, with commercial loan dynamics showing improvement. However, mining activity is expected to remain downbeat, with August marked by the closure of El Teniente operations. The positive dynamics in non-mining activity, along with an improving investment pipeline, have led us to revise our 2026 growth forecast up by 0.2 percentage points to 2.2%.

We expect the CAD to widen this year as domestic demand recovers amid lower inflation, interest rates, and high real wage growth. The upside surprise in 2Q and the revision to 1Q data lead us to revise our 2025 estimate to 3% of GDP for the year, an increase of 1 percentage point from our previous scenario. Nevertheless, the CAD remains well-financed and reflects a balanced economy, as evidenced by the announcement of the BCCh's reserve accumulation program. The tight copper market will support export dynamics while also sustaining a large income deficit amid favorable FDI investment results.

The 0% MoM August inflation print was welcome news, following significant swings in June and July. Before August, core inflation had been accelerating at the margin, raising concerns over the second-round effects of previous minimum wage hikes and electricity increases. Sequential quarterly pressure remains elevated. We expect inflation to end the year at 3.9% and to converge to the 3% target during 2Q26. Lower global oil prices, the expectation of a CLP recovery, a normalization of wage growth, and higher average interest rates will help consolidate the convergence path.

The latest monetary policy guidance suggests a more cautious approach to reaching a neutral rate. The Board indicates there is no urgency to lower rates significantly further, preferring to gather additional data before gradually moving deeper into the neutral rate range. Using the BCCh's one-year inflation forecast, the ex-ante real rate is at 1.55%, close to the neutral real rate range of 0.5-1.5%. We do not anticipate a rate change in October. The December meeting will have three additional inflation reports (only one prior to the October meeting). The expectation of a CLP recovery, amid a dovish Fed scenario, and base effects should support the CPI convergence path going forward. The forward guidance leads us to revise our year-end 2026 policy rate forecast by 25 basis points to 4.25%.

Our upward revision to the cycle endpoint for domestic monetary policy, combined with a scenario that anticipates a larger rate-cutting cycle in the US, bodes well for the CLP. We expect that the improvement in the interest rate differential, along with an enhanced investment outlook, buoyed by elevated terms of trade, will support appreciation of the Chilean peso over our forecast horizon. We still foresee a year-end rate of 930 pesos per dollar but now anticipate the rally extending to CLP 880 per dollar by the end of 2026 (900 previously; the USDCLP averaged 966 during August).

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Chile | Forecasts and Data

	2020	2021	2022	2023	2024	2025F		2026F	
						Current	Previous	Current	Previous
Economic Activity									
Real GDP growth - %	-6.1	11.3	2.2	0.5	2.6	**2.5**	2.6	**2.2**	2.0
Nominal GDP - USD bn	254	311	302	332	324	**350**	350	**386**	380
Population (millions)	19.5	19.7	19.8	20.0	20.1	**20.2**	20.2	**20.3**	20.3
Per Capita GDP - USD	13,068	15,801	15,249	16,616	16,115	**17,339**	17,314	**18,995**	18,705
Unemployment Rate - year avg	10.8	8.9	7.9	8.7	8.5	**8.7**	8.7	**8.6**	8.6
Inflation									
CPI - %	3.0	7.2	12.8	3.9	4.5	**3.9**	3.9	**3.0**	3.0
Interest Rate									
Monetary Policy Rate - eop - %	0.50	4.00	11.25	8.25	5.00	**4.50**	4.50	**4.25**	4.00
Balance of Payments									
CLP / USD - eop	711	851	851	879	996	**930**	930	**880**	900
Trade Balance - USD bn	18.9	10.3	3.6	13.8	21.0	**15.5**	19.5	**16.0**	18.0
Current Account - % GDP	-1.9	-7.4	-8.8	-3.2	-1.5	**-3.0**	-2.0	**-2.7**	-2.3
Foreign Direct Investment - % GDP	4.5	4.9	6.2	5.5	3.9	**4.4**	4.0	**4.3**	3.9
International Reserves - USD bn	39.2	51.3	39.2	46.3	44.4	**48.0**	46.0	**54.0**	48.0
Public Finances									
Primary Balance - % GDP	-6.3	-6.9	2.1	-1.6	-1.7	**-0.9**	-0.9	**0.0**	0.0
Nominal Balance - % GDP	-7.3	-7.7	1.1	-2.4	-2.8	**-2.0**	-2.0	**-1.2**	-1.2
Gross Public Debt - % GDP	32.4	36.4	37.8	39.4	41.7	**42.1**	42.2	**42.6**	42.7
Net Public Debt - % GDP	13.3	20.2	20.4	23.2	26.0	**26.8**	26.9	**27.5**	27.5

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

Macro Research – Itaú

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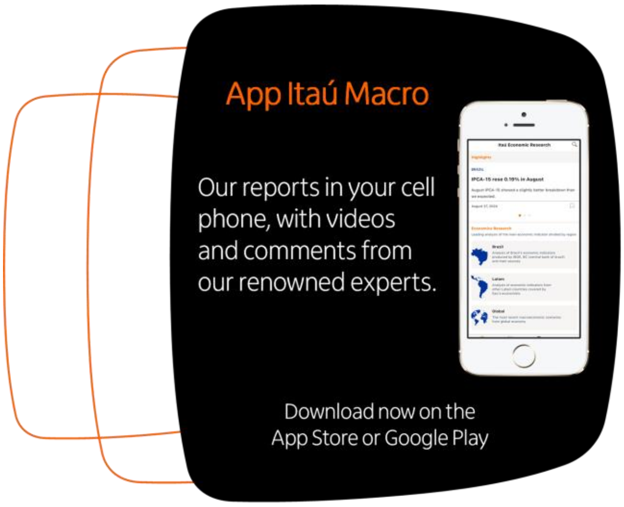

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