Macro scenario - Chile

April 16, 2025

The tide turns

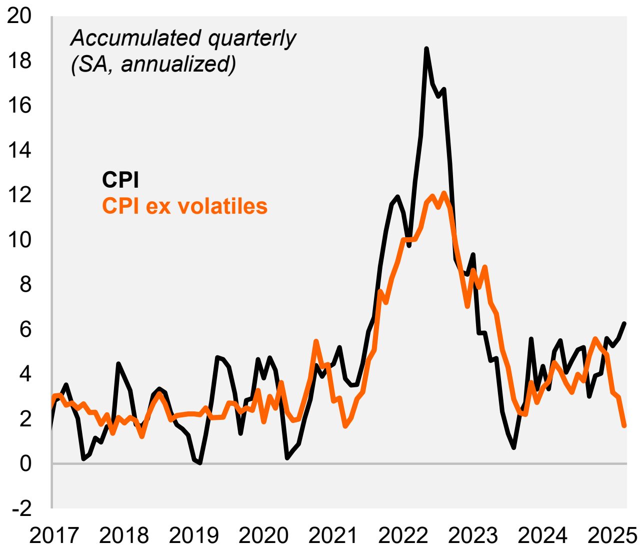
- In our previous reports, the outlook for the Chilean economy was improving, buoyed by a strong external pull and improving domestic fundamentals. However, the surge in global uncertainty following abrupt and widespread tariffs has tarnished Chile's economic outlook. With the situation remaining fluid, even if trade tensions dissipate, domestic private sentiment, investment, and activity dynamics are likely to suffer. For now, we have reduced our GDP growth forecasts for this year and next by 10 and 20 basis points to 2.2% and 1.8%, respectively, incorporating a somewhat faster disinflation path, supported by lower energy prices and activity. We also anticipate a longer easing cycle. We now expect rates to end this year at 4.5% and reach 4% by early next year (previously 5% and 4.5%, respectively). Barring an improvement in the global backdrop, risks to our scenario lean to the downside.

That was then ... Economic backdrop was on the up

Recent hard data indicates that private consumption and investment dynamics have improved amid a pickup in sentiment, elevated real wage growth, and favorable copper prices. Gross fixed investment has been growing at nearly 1% QoQ/SA over the last three quarters, while imports of capital goods grew at a brisk 17% YoY in 1Q25. The influx of affluent Argentinian tourists and real wage growth above 3% supported a rise in the consumption of durables (+0.8% QoQ/SA) and services (+1% QoQ/SA) in 4Q24. In this context, risks to our prior 2.3% GDP growth forecast for 2025 were tilted to the upside.

Inflation remains elevated, averaging 4.8% in 1Q25 against a 3% target, yet has been in line with expectations. Significant cost adjustments from previous minimum wage increases (accumulating close to 50% in nominal terms over three years) and electricity price hikes (over 50% since the start of 2024) have played a key role in raising inflation. Energy prices contributed 1.4 percentage points to the annual CPI in 1Q25, affecting the speed of the disinflation process. With economic activity evolving around potential and consumer prices nearing a more challenging base effect, inflation is set to decline more swiftly during 2H25. Core price pressures are already much lower at the margin. Sequentially, the annualized core inflation accumulated during 1Q25 reached 1.7%, down from a recent peak of 5.6% in the October 2024 quarter.

Lower core price pressure



Source: INE, Itaú

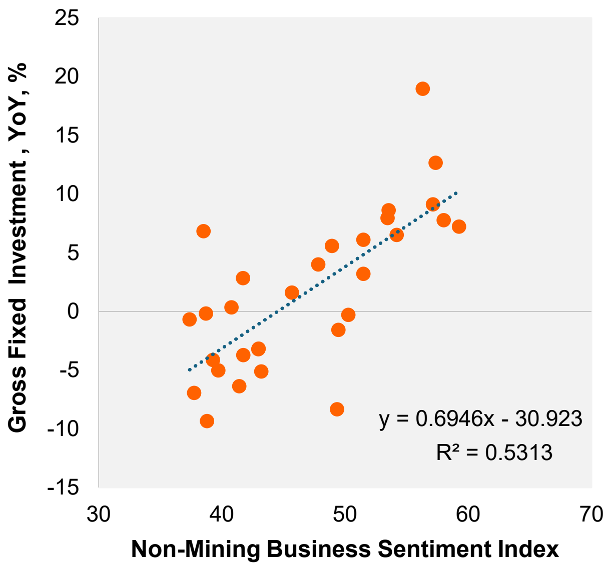
This is now ... Another headwind

When elephants fight, it's the grass that suffers. - An African proverb

The recent whiplash in tariff implementation has significantly increased policy uncertainty, negatively affecting private sentiment and encouraging risk-off strategies. As a small open economy, Chile is likely to experience a drag on local economic activity due to unfavorable global developments over time. Initially, Chile was subjected to a global minimum 10% tariff. The Finance Ministry indicated that no retaliatory measures would be taken. The U.S. exempted certain goods from the tariff, including copper, which accounts for nearly 40% of Chile's exports to the U.S. in 2024 (USD 16 billion). Copper may still face tariffs, but the study commissioned by the U.S. government has not yet been finalized. Chile confronts the latest crisis with international reserves at levels similar to those during the previous two global shocks, while the current account deficit is significantly narrower than during the COVID-19 pandemic. However, greater weakness is evident on the fiscal front, with the Stabilization Fund (FEES) down from around 4% of GDP to slightly above 1%, and gross public debt has increased by nearly 15 percentage points since the pre-pandemic scenario.

Total exports to the U.S. account for around 5% of Chile's GDP annually. With copper exports exempt from tariffs (40% of US exports), the direct impact of the measure appears limited. Nevertheless, increased uncertainty, tariff escalation between the U.S. and China (Chile's main trading partners), and a decline in copper prices will dampen the economy's external growth dynamics. We revised global growth down by 20 bps and copper prices by 4.2%, likely slowing the recovery trend in private sentiment and negatively affecting private consumption and investment. The announcement of a 90-day delay, along with increased China-specific tariffs, will do little to alleviate the wave of caution that is expected to impact activity dynamics in Chile. Once unleashed, uncertainty takes long to abate.

Investment sensitive to sentiment swings



Source: BCCh, Icare (1Q12-2Q19)

While the measures are cost-push inflationary for the U.S. in the short term, the local impact is marginally to the downside. Although the USDCLP has weakened, the trade-weighted exchange rate is less affected as China gradually devalues its currency. Additionally, global oil prices have slumped due to a weaker global outlook, with energy goods accounting for just under 20% of total imports. Over time, our forecast for weaker domestic demand, along with risks of excess supply from tariff-targeted markets, places downward pressure on prices in Chile.

The weaker domestic and global growth scenario, along with greater disinflationary pressures and looser short-term financial conditions, will likely lead to lower domestic rates. Our latest global scenario now anticipates the Fed cutting rates by 50 basis points this year and 50 basis points during 2026. While the downside effects on activity and inflation from the trade war may be limited for Chile, they still shift the pendulum towards a monetary policy stance transitioning from slightly restrictive to neutral. The BCCh estimates the real neutral rate to be in the range of 0.5-1.5%. Currently, the one-year ex-ante real rate is near the upper bound of this range. In the March IPoM, the central bank indicated a baseline scenario where the policy rate would end the year at 4.5% and converge to 4% over the policy horizon. However, a sensitivity scenario considering an escalation of the global trade conflict—dampening expectations, spending, and inflationary pressures—would necessitate a swifter rate-cutting cycle. The lower bound of the rate corridor suggests a 3.25% nominal rate during 2026.

Revising Growth, Inflation, And Rates Down

We now expect the economy to grow by 2.2% this year, eliminating the 20-bp upside bias we had in our previous 2.3% forecast. Growth for next year is revised by 20 bps to 1.8%. While a resolution of global trade tensions may eventually occur, a prolonged period of global uncertainty is expected to dampen private sentiment and slow the pace of investment recovery. Additionally, the contribution from global trading partners, a key driver behind the recent growth uptick, is anticipated to diminish going forward.

We do not expect the minimum wage to be adjusted significantly in real terms this year, while electricity price increases will be far milder. With the recovery in activity expected to slow and global energy prices revised significantly downward; we see a greater likelihood of a swifter path to inflation convergence. We have revised our year-end forecast down by 10 bps to 4% and anticipate inflation to be a tick below the 3% target next year.

We now anticipate a year-end exchange rate of 970 pesos per dollar (+1.6%), driven mainly by our downward revision of copper prices. We expect a recovery next year to 940 (previously 930).

A revised scenario that incorporates softer domestic demand, a swifter disinflation path, and the expectation of looser monetary policy abroad led us to bring forward the additional rate cuts we had anticipated and add another 50 bps during 1H26. We now see the year-end monetary policy rate at 4.5% (-50 bps). The easing cycle is likely to resume in 3Q25. We now see the cycle endpoint at 4% during 2026 (previously 4.5%). The balance of risks tilts towards an even larger cycle.

Our projection for lower growth and copper prices presents additional challenges for the pace of fiscal consolidation. We have increased our nominal fiscal deficit estimate by 20 basis points to 2.2% of GDP, which still assumes a significant reduction in spending during an election year.

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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	**2.2**	2.3	**1.8**	2.0
Nominal GDP - USD bn	254	311	302	332	324	**332**	321	**362**	355
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	**16,448**	15,891	**17,817**	17,450
Unemployment Rate - year avg	10.8	8.9	7.9	8.7	8.5	**8.5**	8.5	**8.4**	8.2
Inflation									
CPI - %	3.0	7.2	12.8	3.9	4.5	**4.0**	4.1	**2.9**	3.0
Interest Rate									
Monetary Policy Rate - eop - %	0.50	4.00	11.25	8.25	5.00	**4.50**	5.00	**4.00**	4.50
Balance of Payments									
CLP / USD - eop	711	851	851	879	996	**970**	955	**940**	930
Trade Balance - USD bn	18.9	10.3	3.6	13.8	21.0	**19.0**	22.5	**16.0**	18.0
Current Account - % GDP	-1.9	-7.4	-8.8	-3.2	-1.5	**-2.0**	-2.4	**-2.5**	-2.9
Foreign Direct Investment - % GDP	4.5	4.9	6.2	5.5	3.9	**4.1**	4.8	**4.1**	4.8
International Reserves - USD bn	39.2	51.3	39.2	46.3	44.4	**46.0**	50.0	**48.0**	58.0
Public Finances									
Primary Balance - % GDP	-6.3	-6.9	2.1	-1.6	-1.7	**-1.1**	-0.9	**0.0**	0.2
Nominal Balance - % GDP	-7.3	-7.7	1.1	-2.4	-2.8	**-2.2**	-2.0	**-1.2**	-1.0
Net Public Debt - % GDP	13.4	20.2	20.4	23.1	**25.8**	**26.5**	27.3	**27.0**	27.5

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

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