Macro scenario - Chile

July 14, 2025

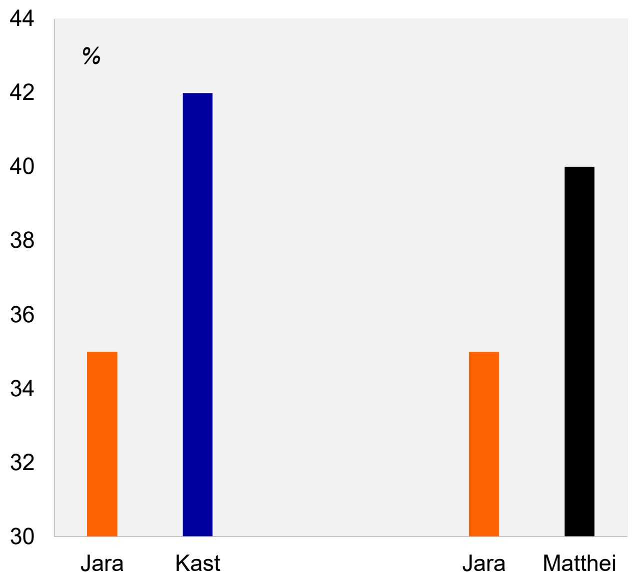
Prepped to cut

- Factors that led to a strong start to activity this year are expectedly fading, even though mining production continues to outperform, leading us to maintain our 2025 GDP call at 2.6%. However, labor market slack is increasing, credit dynamics are soft, and sequential inflation pressures are contained. Heightened tariff uncertainty adds medium-term downside risks to activity. As a result, we expect the central bank to resume the easing cycle later this month with a 25bp cut, and envisage two additional cuts to 4.25% by year-end, although risks lean towards a more cautious approach.

Governing coalition decides presidential candidate

In November, voters will elect a new president (with a potential runoff in December), the entire Lower House, and roughly half of the Senate. In a June 9 primary with low participation, the governing coalition elected former labor minister and Communist Party member Jeannette Jara as their presidential candidate. Since then, polls show that Jara jumped to lead overall voting preferences, having swiftly converged with the administration's approval of around 30%. Poll runoff scenarios suggest opposition candidates Kast or Matthei would defeat Jara. Beyond the presidential race, in our view, the composition of Congress is especially relevant for the design of public policy. The political left is expected to coalesce under a single congressional list, while the press reports the right may run in at least two congressional lists, risking a split vote.

Presidential Runoff Scenarios

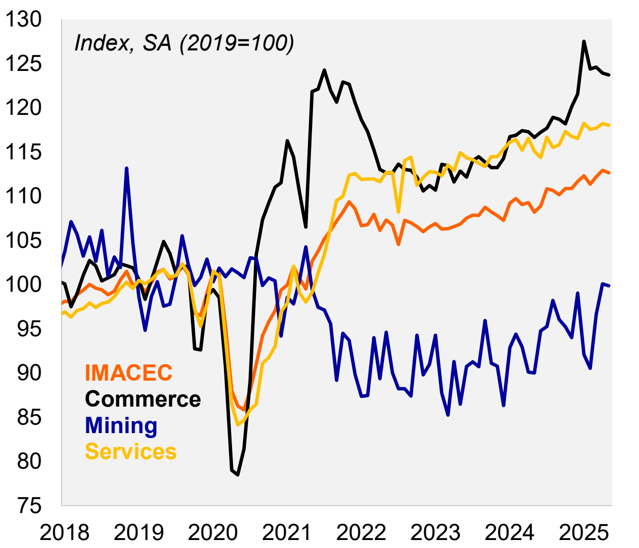


Source: Criteria

Consumer tourism boost starts to fade

The recent commerce pull is showing signs of normalization, as we expected. Commerce contracted by 1.3% QoQ/SAAR, marking the first downward adjustment in momentum since 4Q23, compared to a 20% increase in 1Q25. While inbound tourism levels are near record highs, the marginal impact is understandably fading. Foreign tourism inflows rose by 11% YoY in May, down from the 47% registered in 1Q25. Meanwhile, mining momentum is surging, with a 24% QoQ/SAAR increase, in line with double-digit growth in imports of machinery and equipment for the sector. During the quarter ending in May, activity rose by 3.1% YoY, up from 2.3% in 1Q, while non-mining activity rose by 2.7% YoY, consistent with the performance seen in 1Q. If activity levels remain flat from May until the end of the year, the GDP proxy would rise by 2.3% in 2025.

Commerce levels adjusting



Source: BCCH, Itaú

Labor market slack appears to be the economy's weakest link, posing headwinds to household consumption growth. The recent surge in labor costs continues to impact the labor market, with slack expected to persist in the near term. Over the past twelve months, employment levels have remained essentially unchanged, despite the economy showing clearer signs of recovering growth, raising concerns of a jobless recovery. The nominal minimum wage has increased by a cumulative 50% since April 2022, a reduced workweek has been implemented, and a pension reform is set to gradually raise employer contributions over time. Building on these measures, the latest nominal minimum wage adjustment path—a 3.6% increase in May and a 1.9% increase in January—exceeds our call of a 3.8% CPI rise this year. Labor demand proxies remain low, and administrative records suggest job terminations remain high. Importantly, household confidence (as measured by IPEC) has gradually edged up, despite swings in global policy uncertainty and geopolitical tensions.

Limited copper tariff effect

Greater-than-expected 50% tariff on copper imports to the US to begin in August. Since late February, copper has been under a section 232 investigation to determine whether imports represent a national security risk to the USA. Year-to-date, Chilean exports to the U.S. have totaled USD 9.2 bn (17.4% of the total; USD 15.6 bn in 2024, 15.7%), mostly comprised of mining exports (50%, copper: 46%), salmon (14%), fruit (11%). Chilean imports from the U.S. totaled USD 8.0 bn year-to-date (FOB, 19.4% of the total; USD 14.8 bn in 2024, 19.0%), mostly intermediate goods (mineral fuels, oils, distillation products). The small trade surplus registered this year is due to the frontloading of copper purchases ahead of the tariff on the metal. Ex-US copper prices are expected to retreat by around 5% from levels prior to the announcement as US demand softens, utilizing the built-up reserves during 2H25. Next year, with the weakening global dollar, inelastic US demand for the metal and global supply constraints, prices are expected to trend up. Using market estimated price elasticities of demand (Steurmer 2017, Agostino 2006), and considering the volume of copper exports to the US, US demand could decline by 15% to 20% over the next 5 to 10 years, implying a loss of Chilean export revenue of approximately USD 1 billion per year (0.3% of GDP).

Short-term risks to CLP

The Chilean peso has appreciated by around 4% against the US dollar this year, while broadly stable against trading partners (excluding the US). Elevated copper prices, partly boosted by the US frontloading of purchases ahead of a sector-specific tariff (50%), and low global oil prices are keeping the terms-of-trade levels near historic highs. Non-residents have maintained a broadly neutral position on the CLP after a sustained period of being short on the asset. The continued weakening of the global dollar is accompanied by opposing risks, including a larger-than-expected downward correction of copper prices, higher country-specific tariffs, a polarized election scenario, and a rapid narrowing of the interest rate differential with the US.

Inflation fall to continue

Sequential price dynamics align with annual inflation moving towards the 3% target. While inflation dynamics at the margin appear well behaved, annual metrics are still above the target, mainly reflecting the cumulative effects of large electricity price adjustments in 2024. In annual terms, headline inflation sits at 4.1% in June, exceeding the 3% target since early 2021. Core inflation is at 3.8%, with core goods and services inflation rising by 2.9% and 4.4%, respectively. Sequentially, headline inflation increased by 2.7% QoQ/SAAR during 2Q25, while core pressures were at 2.4%. For July, we estimate a 7% increase in electricity prices (2.2% of the basket), resulting in a total CPI of around 0.7%. Annual inflation should decline more rapidly during the final quarter of the year due to base effects. Survey and market-based measures of inflation at the one-year horizon have edged down to around 3.2% and remain anchored at 3% at the two-year horizon.

Ready to cut this month

The June meeting saw a unanimous decision to hold the monetary policy rate (MPR) at 5%. As in the previous meeting, the option to cut by 25 basis points was also considered but ultimately dismissed due to tactical considerations. The IPoM published the day after the June decision indicated rate cuts over the coming quarters toward a terminal rate of 4%. The disinflation path is expected to consolidate, with headline inflation reaching 3% in early 2026, while medium-term CPI expectations remain anchored. Both the central bank's trader and analyst surveys, along with asset pricing, show that the market expects the BCCh to resume its cutting cycle later this month (July 29).

Conditions favor lower rates

We still forecast 2025 GDP growth at 2.6% this year, near the upper end of the BCCh's 2-2.75% range. While the temporary boost from consumer tourism, strong exports, and the front-loading of public expenditure is expected to fade during the second half of 2025, the delayed positive effects of lower borrowing costs, still-elevated real wage growth, upward-trending private sentiment, and improving mining investment dynamics should continue to support growth. We anticipate growth moderating towards potential (2%) next year, as global growth slows.

We expect a slightly stronger CLP over our forecast horizon due to sustained US dollar weakening, in line with our global scenario. Nevertheless, volatility will remain high as interest rate differentials are already narrow, elections approach, and the tariff situation on copper affects prices. We anticipate a year-end rate of 930 per dollar and 900 by the end of next year.

The negative inflation print in June will be offset by a rebound in apparel and electronic prices in July, along with a 7% increase in electricity prices. CPI is projected to decline swiftly during 2H25 due to base effects and contained sequential pressures. We forecast CPI at 3.8% (down from 4.1% in June) and 3% next year.

Weak commercial credit, growing labor market slack, and below target annualized sequential inflation pressures (SA), in the context of anchored inflation expectations, should prompt the Board to cut the policy rate by 25 bps later this month (July 29) to 4.75%. In our view, factors that could lead the BCCh to delay a resumption of the easing cycle are linked to global developments that increase uncertainty and financial market volatility. We anticipate a year-end rate of 4.25%, with risks tilted towards one fewer cut materializing this year.

Andrés Pérez M.
Vittorio Peretti
Andrea Tellechea Garcia

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	**2.6**	2.6	**2.0**	2.0
Nominal GDP - USD bn	254	311	302	332	324	**350**	347	**380**	376
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	**17,314**	17,169	**18,705**	18,503
Unemployment Rate - year avg	10.8	8.9	7.9	8.7	8.5	**8.7**	8.5	**8.6**	8.4
Inflation									
CPI - %	3.0	7.2	12.8	3.9	4.5	**3.8**	3.8	**3.0**	3.0
Interest Rate									
Monetary Policy Rate - eop - %	0.50	4.00	11.25	8.25	5.00	**4.25**	4.25	**4.00**	4.00
Balance of Payments									
CLP / USD - eop	711	851	851	879	996	**930**	940	**900**	910
Trade Balance - USD bn	18.9	10.3	3.6	13.8	21.0	**19.5**	20.0	**18.0**	17.0
Current Account - % GDP	-1.9	-7.4	-8.8	-3.2	-1.5	**-2.0**	-1.9	**-2.3**	-2.4
Foreign Direct Investment - % GDP	4.5	4.9	6.2	5.5	3.9	**4.0**	4.0	**3.9**	4.0
International Reserves - USD bn	39.2	51.3	39.2	46.3	44.4	**46.0**	46.0	**48.0**	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	**42.2**	42.4	**42.7**	42.9
Net Public Debt - % GDP	13.3	20.2	20.4	23.2	26.0	**26.9**	27.0	**27.5**	27.5

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

Macro Research – Itaú

Mario Mesquita – Chief Economist

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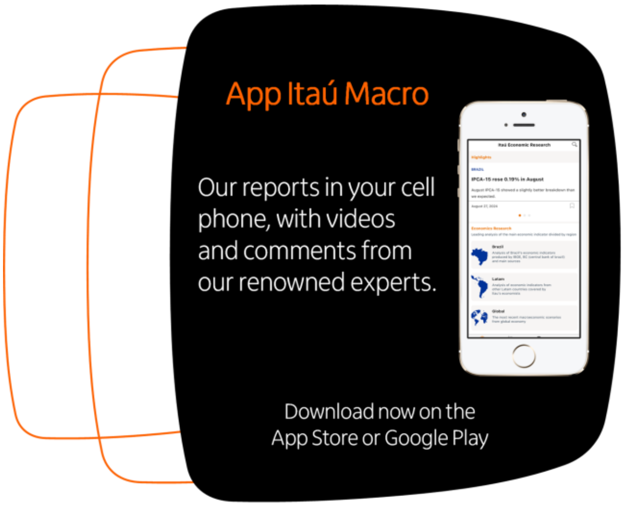

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