

Public Finance: Another fiscal relapse in 2025

- ▶ Revenue disappointments and greater spending again led to a large 2.8% deficit in 2025, unchanged from the previous year, despite elevated copper prices. The structural deficit, to be confirmed in mid-February, likely approached 3% of GDP, well above the watered-down 2.2% target, suggesting fiscal policy has been substantially more expansionary than envisioned, contributing to the third consecutive miss and eroding the fiscal institutional framework.
- ▶ Liquid assets at the Treasury were at critical levels by the end of 2025 (USD 46 million), the lowest year end level at least since 2010.
- ▶ However, fiscal consolidation should finally resume in 2026, mainly driven by lagged revenue recovery, in turn supported by elevated copper prices, as well as spending cuts – to be implemented by the incoming administration. We forecast a 1.3% of GDP nominal deficit in 2026.

According to the Budget Office's monthly report: the Central Government's real revenues unexpectedly fell by 6.0% YoY in December, leading to a 3.8% contraction during 4Q25. At the margin, cyclically-related real revenues (tributación resto contribuyentes, comprising roughly 80% of total revenues) disappointed again, plunging by 9.2% YoY; we estimate the cumulative miss during 4Q25 at roughly 0.4% of GDP (-0.5% for the full year). In contrast, mining related revenues in December remained strong. Private mining real revenue growth rose by 21.2% YoY in December, up by 47.2% in the year, reflecting the first full year of the new mining royalty law and elevated copper prices. Codelco's real payouts rose by 30.2% YoY in the month, leading to a full year of 25.1%. Even though double-digit mining-related revenue growth looks strong for the year, it was slightly below the MoF's official forecast, likely due to lower output, in turn due to transitory supply disruptions. Finally, real property rents (mostly tracked due to its relationship with lithium-related payments) fell by 19% YoY in November, taking the full year to -13.9%, also underwhelming the MoF's annual revenue forecast.

As a result, real revenues in 2025 rose by only 3.5%, well below the MoF's watered-down revenue forecast of 6.8% (from the 3Q25 Public Finance Report), mainly driven by weaker growth in cyclically-related revenues (actual of +1.5%, forecast of +4.5%).

Real spending roared back by 8.0% YoY in December, driven by capital expenditures. Current expenditure rose by 4.1% YoY, mainly driven by a 9.0% increase in personnel (education-related); current expenditures in the year rose by 3.1% accumulating 99.5% of the annual budget. Capital expenditure increased by 25.0% YoY in December, leading to a cumulative rise in the year of 6.0%, taking this component's expenditure to 87.9% of the annual budget, above 2024 (86%).

Spending rises above the official forecast. The Central Government's spending rose by 3.5% in the year, above the 2.6% official forecast. We were expecting capital spending to contract by the end of the year to facilitate the compliance with official expenditure forecasts, but that failed to materialize, even in the context of critically low liquid cash balances.

In line with seasonal dynamics, December's monthly fiscal balance swung back to a deficit of 0.5% of GDP, leading to a 4Q25 balance of -0.9% of GDP, a greater deficit than last year (-0.4%). As a result, the 2025 nominal fiscal balance reached -2.8% of GDP, same as in 2024, well above the MoF's annual forecast (-2.0%). On a 12-month moving average basis as of the end of December, the central government's revenues fell by 50bps from December 2024 to 21.4% of GDP, and expenditures did so by the same amount to 24.3%, leading to a nominal deficit of 2.8%, same as in 2024.

No Hay Plata – Liquid assets end the year at the lowest level on record at least since 2010. Liquid assets in the Treasury fell in December to roughly USD46 million (from USD420 million in Dec-24), the lowest year end balance on record at least since 2010. AUM in the sovereign wealth funds were little changed (see table); the MoF reported a first contribution to the Pluriannual Fund for USD249 million, related to long-term commitments of the armed forces.

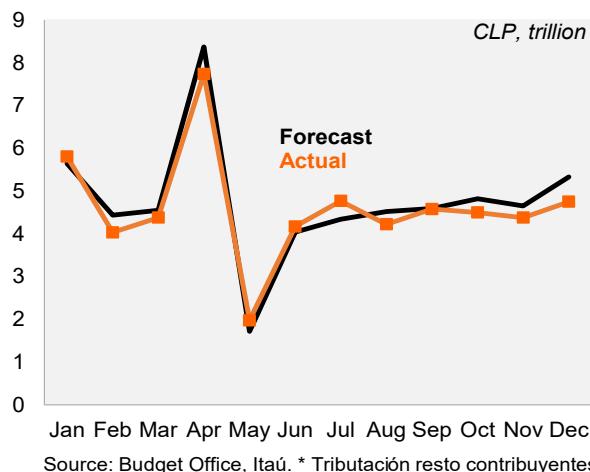
According to the MoF, gross public debt by the end of 2025 remained unchanged on an annual basis at 41.7% of GDP, partly supported by the appreciation of the exchange rate.

Our take:

- Another year to forget ... The 2025 nominal deficit ended the year at 2.8% of GDP, above our 2.5% forecast and the MoF's revised call (2.0%). The deficit blowout is even greater when considering that when the 2025 budget was presented to Congress in 4Q24, the 2025 nominal deficit was projected at 1.0% of GDP. The negative effects of revenue disappointments were compounded by greater spending (3.5%, forecast of 2.6%). The structural deficit likely ended the year close to 3.0% of GDP, well above the target of 2.2% (was revised from 1.1%), implying a third consecutive year of fiscal misses. Put differently, fiscal policy has been substantially more expansionary than originally envisioned. The string of above-target structural deficits, in the absence of a significant negative shock to the Chilean economy is a sign of concern, suggesting that despite early warnings from the Autonomous Fiscal Council and market participants, the fiscal institutional framework has been unable to arrest the deterioration.
- but 2026 should reveal a much-needed improvement based on spending cuts and revenue improvement. We forecast a 1.3% of GDP nominal deficit in 2026, with important two-sided risks. Non-mining tax revenues ended 2025 roughly 0.5% of GDP below the official forecast, suggesting the revenue stream going forward may be challenging to meet; the MoF estimated a +4.7% YoY real revenue rise for this year, coming from a higher base. However, if the current level of copper prices persists (copper price budget was USD4,30 per pound), along with the uptick in lithium prices, revenues could jump by 1-1.5% of GDP, lowering financing needs and eventually leading to much-needed savings in the Stabilization Fund. On the spending side, the incoming administration intends to implement a sizable and welcome spending adjustment. The CEP has identified short-term administrative efficiency measures of roughly 0.3-0.4% of GDP (see report). The 2026 budget considers a structural deficit of 1.1% of GDP, implying a significantly negative fiscal impulse from 2025.
- On the financing front: The 2026 budget law authorizes gross debt issuance in the calendar year for a total of USD17.4 billion (and an additional USD600 million in loans from multilaterals). As we anticipated, the MoF announced their issuance plan in early January, considering the full USD17.4 billion, of which roughly 30% will be in foreign currency and the remainder in local currency. Issuance kicked off in early January with foreign currency issuances for USD4.3 billion, followed by local currency auctions. The 1Q26 local currency issuance calendar considers roughly USD2.5 billion in bonds and USD4.2 billion in nominal notes maturing in 2026, taking total bond issuance in 1Q26 to USD6.8 billion of the total USD17.4 billion annual plan, suggesting a front loaded strategy in the context of low liquid cash balances and potential operational challenges with a new administration beginning in March.
- Dollar sales in 2026: Dollar sales address the government's gross financing needs, disregarding exchange rate considerations. We estimate gross financing needs (most of which are below the line) close to USD18 billion in 2026, which could eventually decline if revenue dynamics improve further, most of which is financed through local currency issuance. Net dollar inflows (primarily from mining-related revenue, foreign currency issuance, and amortizations) should reach at least USD10.1 billion in 2026. Such an amount would allow for the largest dollar sales since 2023 (USD12.2 billion). As in previous years, the MoF is authorized to hedge up to USD4 billion in foreign currency debt in 2026; official records suggest the outstanding stock of hedges reach about 3% of gross public debt, roughly USD4.5 billion.
- Upcoming data & relevant events: The Budget Office should publish January data on March 2. The 4Q25 Public Finance Report, the last macro-fiscal report of the Boric administration, which also includes the

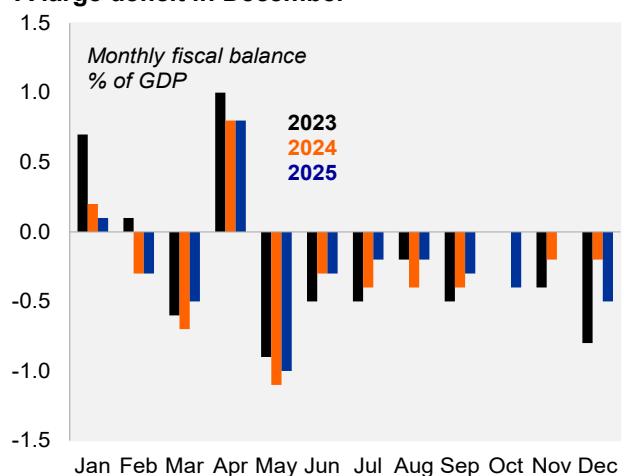
preliminary close of 2025 related to the structural balance should be published in the first half of February. The next administration takes office on March 11 and must present its fiscal plan for the four-year term during the first 90 days. A tax reform that gradually reduces corporate taxes from 27% to 23%, along with other measures, has been announced for April 1.

4Q cyclically-related revenues were especially weak



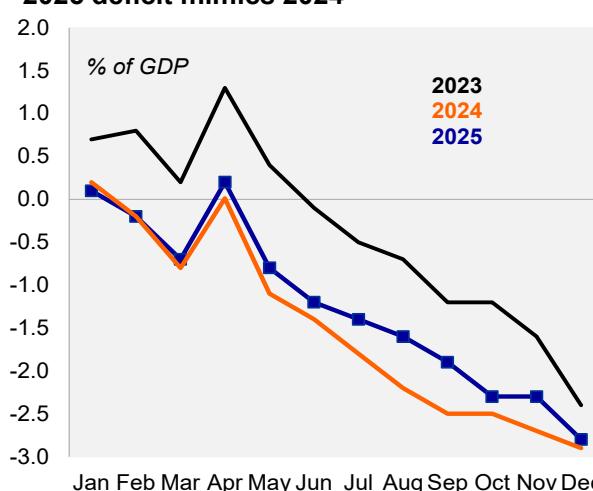
Source: Budget Office, Itaú. * Tributación resto contribuyentes

A large deficit in December



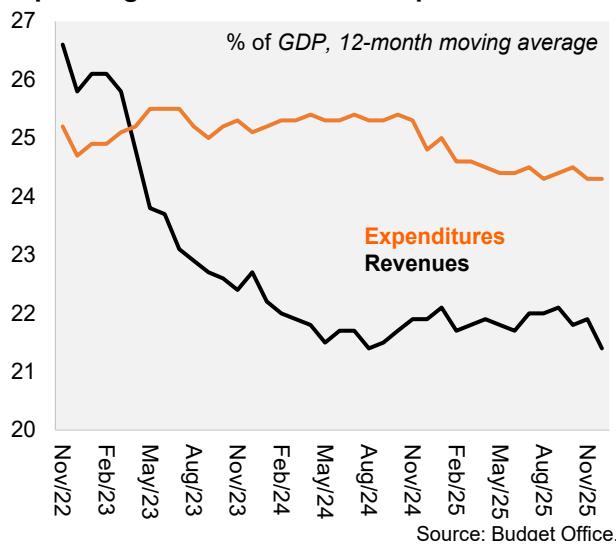
Source: Budget Office, Itaú

2025 deficit mimics 2024



Source: Budget Office, Itaú

Spending cuts are needed to square the circle



No Hay Plata

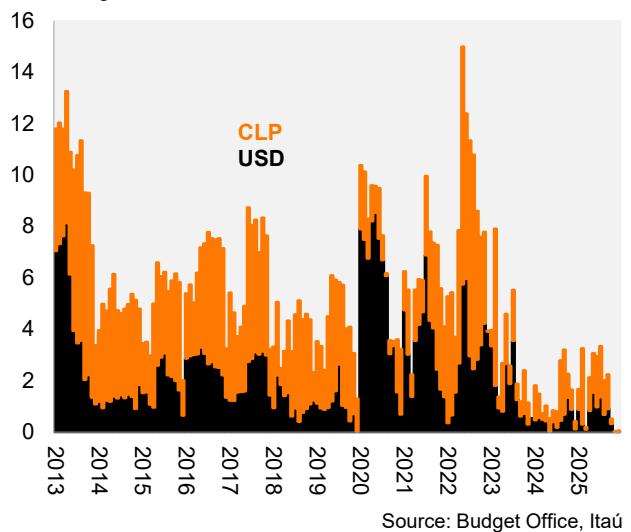


Table 1. Central Government Revenues

	December			2025, year-to-date			
	CLP million	% YoY, real	% of Total	CLP million	% of total	% YoY, real	% of GDP
Net tax revenues	5,231,359	-7.1	77.9	60,644,084	83.5	4.3	18.1
Private mining taxes	478,482	21.2	7.1	5,288,286	7.3	47.2	1.6
Other taxes	4,752,876	-9.2	70.8	55,355,797	76.2	1.5	16.5
Gross copper	203,844	30.3	3.0	1,754,209	2.4	25.1	0.5
Social security contributions	401,892	22.4	6.0	4,366,802	6.0	13.7	1.3
Donations	2,412	30.2	0.0	72,278	0.1	-9.0	0.0
Property Income	101,598	-19.0	1.5	1,765,199	2.4	-12.9	0.5
Operating Income	169,401	39.9	2.5	1,525,751	2.1	-0.7	0.5
Other Income	598,069	-22.7	8.9	2,466,166	3.4	-20.2	0.7
Sale of physical assets	4,223	218.8	0.1	12,036	0.0	-34.5	0.0
Total Revenues	6,712,797	-6.0	100.0	72,606,525	100.0	3.5	21.7

Source: Budget Office.

Table 2. Central Government Expenditures

	December			2025, year-to-date			
	CLP million	% YoY, real	% of Total	CLP million	% of total	% YoY, real	% of GDP
Current Expenditures	6,657,518	4.1	78.7	70,620,039	86.0	3.1	21.1
Subsidies and donations	2,925,793	-1.3	34.6	26,578,973	32.4	-2.1	7.9
Personnel	1,653,513	9.0	19.6	17,168,267	20.9	8.4	5.1
Social security payments	1,344,885	3.1	15.9	15,503,102	18.9	3.7	4.6
Goods and Services of Consumption and Production	633,014	18.2	7.5	6,826,696	6.3	8.6	2.0
Interest payments	30,908	-3.8	0.4	4,202,538	5.1	7.1	1.3
Others	69,406	58.7	0.8	340,463	0.4	-4.4	0.1
Capital Expenditures	1,798,032	25.0	21.3	11,508,750	14.0	6.0	3.4
Capital Transfers	799,533	11.6	9.5	6,597,659	8.0	5.5	2.0
Investment	998,499	38.3	11.8	4,911,091	6.7	6.7	1.5
Total Expenditures	8,455,550	8.0	100.0	82,128,789	100.0	3.5	24.5

Source: Budget Office.

Table 3. Treasury Assets

USD million, end of period

	2021	2022	2023	2024	2025				
					1Q	2Q	3Q	4Q	% of GDP
Treasury's Liquid Assets (OATP)	4,098	3,925.5	525.9	419.3	182.9	2,945.9	2,237.9	46.3	0.0
CLP	2,726	1.2	-	312.5	82.0	1,972.2	1,337.4	43.6	0.0
USD	1,371	3,924.3	525.9	106.8	100.9	973.8	900.5	2.7	0.0
Sovereign Wealth Funds	9,930	13,989.5	14,668.7	12,996.5	13,230	13,644	14,005	14,211	4.2
Stabilization Fund (FEES)	2,457	7,514.2	6,030.1	3,618.2	3,723.0	3,844.9	3,877.4	3,898.1	1.2
Pension Reserve Fund (FRP)	7,473	6,475.3	8,638.6	9,378.3	9,506.6	9,799.0	10,127.4	10,313.2	3.1
Others	872	768.9	711.0	686.9	649	740	689	938	0.3
Total Treasury Assets	14,900	18,683.9	15,905.6	14,102.7	14,061.5	17,330.2	16,931.4	15,195.9	4.5

Source: Budget Office.

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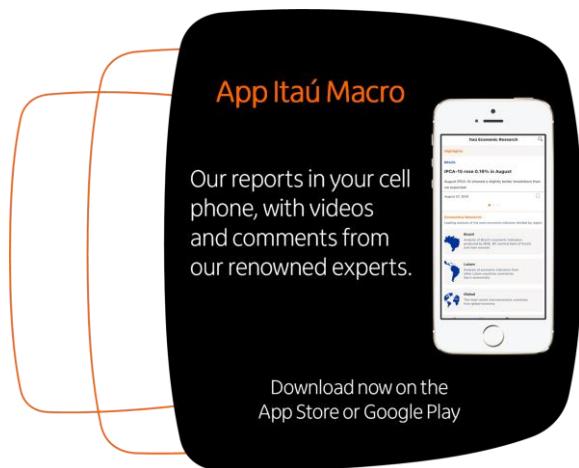
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