Macro scenario - Chile

August 15, 2025

On the final stretch

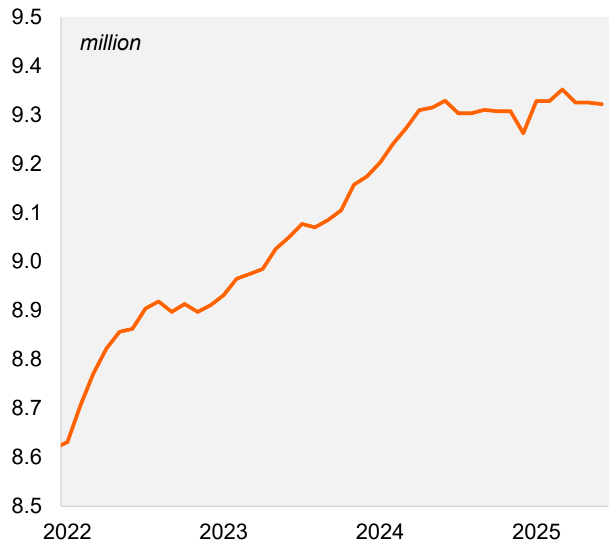
- The Central Bank resumed its rate-cutting cycle in July, lowering the policy rate to 4.75% and signaling further easing ahead. Anchored inflation expectations, a sluggish labor market, and weak commercial credit dynamics support a gradual reduction toward the nominal neutral rate of 4%. However, rising sequential core inflation pressures and resilient non-mining activity argue for a gradual pace of cuts as the BCCh approaches neutral, and the end of the cycle. We now anticipate a pause in September, with one 25bp rate cut to end the year at 4.5%. We expect the cycle to conclude at 4% in 2Q26.

A jobless recovery scenario consolidates

The economy grew by 2.9% YoY in 2Q25 (IPoM: 3.1%; 2.3% in 1Q25), marking the fourth consecutive quarterly sequential gain. Mining rebounded with a 3.3% YoY increase, reversing the 1% contraction seen in 1Q25. Non-mining sectors expanded by 3% (2.8% in 1Q25), led by commerce, as elevated real wage growth (boosted by minimum wage adjustments) and the influx of consumer tourism sustained upward momentum. Business confidence levels (IMCE) at the start of 2H25 continued their upward trend, key to consolidating the investment recovery. Year-to-date imports of capital goods have increased by 20% YoY. Developments on the trade front have been positive, with the United States excluding refined copper from tariffs and retaining the minimum 10% on other Chilean exports. Following significant frontloading, fiscal spending is being curtailed, as we had expected, while the marginal contribution from consumer tourism is set to fade amid more demanding base effects in 2H25.

While economic growth improves, labor and credit markets have stalled. According to the BCCh's 2Q25 Banking Credit Survey, loan demand continued to weaken sequentially across all segments, except for housing demand, which improved, while credit supply has been stable for the past several quarters. Meanwhile, layoffs rose by 8.9% YoY in the rolling quarter ending in May, as labor demand proxies have improved slightly but remain well below pre-pandemic levels. The national unemployment rate drifted above the upper bound of the BCCh's NAIRU estimate in 2Q25, with limited job creation, and the female unemployment rate (sa) rose to 9.9%, the highest outside periods of economic crises. Given the substantial increases in labor costs over the past few years, the strain on the labor market is expected to persist, posing headwinds to private consumption growth.

Stagnant employment levels

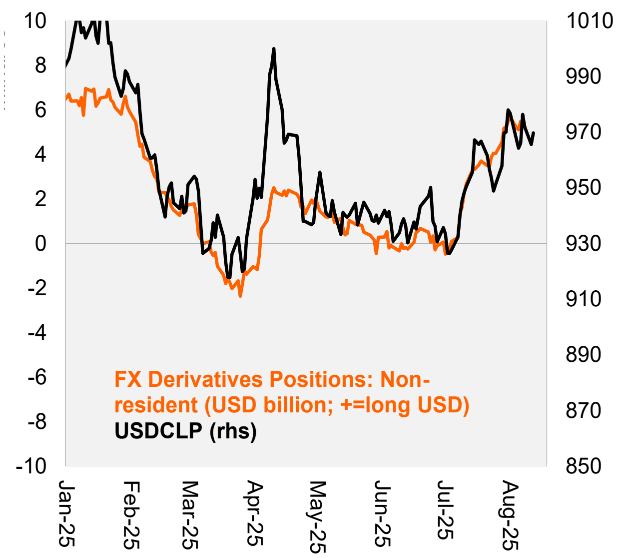


Source: INE, Itaú

An elevated trade surplus of USD 11.7 billion (3.5% of GDP) was achieved during 1H25, similar to the corresponding period last year. Copper exports remained the key driver, rising 10% YoY during 1H25. By the end of 1H25, exports to the USA began to normalize following significant copper import front-loading amid tariff uncertainty. Import dynamics continue to reflect improving domestic demand, as both capital and consumer goods increased at a double-digit rate in 2Q. In early July, the USA signaled the possibility of implementing a 50% tariff on refined copper imports.

Non-residents significantly increased their short-CLP derivative positions. By the end of July, however, the Trump administration exempted refined copper from tariffs. The combination of favorable tariff developments, a tight global supply-demand scenario for copper, and our view of a globally weaker US dollar ahead supports a CLP recovery from current levels going forward.

Non-residents short the CLP

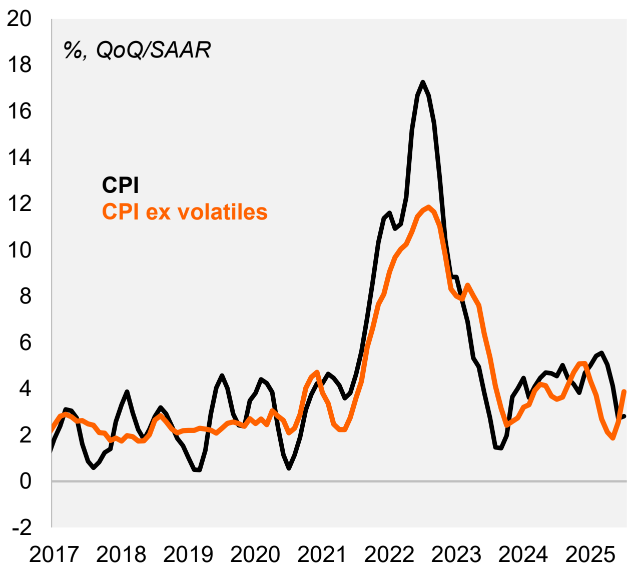


Source: BCCh, Itaú

Resuming the rate cut cycle and accumulating reserves

Recent inflation data has been volatile, with core prices surprising to the upside. The Cyber Day sales event contributed to a CPI decline in June (-0.4% MoM), while the normalization of sales prices and a 7% increase in electricity tariffs drove a significant 0.9% monthly rise in July. Headline inflation currently stands at 4.3%, well above the 3% target. Core inflation rose to 4.0%, marking the third consecutive increase since April's 3.5%. Still, two-year-ahead survey-based inflation expectations remain anchored at the 3% target. Meanwhile, manufacturing PPI data suggests limited upward pressure on tradable goods prices in the near term.

Sequential core pressures rise



Source: INE, Itaú

At its fifth monetary policy meeting of the year, the Central Bank of Chile (BCCh) unanimously cut the monetary policy rate (MPR) by 25 basis points to 4.75%. This was the first policy rate movement of 2025, breaking a long pause initiated after a 25-basis-point cut last December. The forward guidance was unchanged, indicating that if the central scenario of the June IPoM materializes, the MPR will be lowered to its neutral nominal range over the coming quarters (nominal: 3.5%-4.5%).

A three-year USD18.5 billion reserve accumulation program. The BCCh unexpectedly announced a reserve accumulation program of up to USD25 million daily over three years, to be reviewed every six months. Excess pesos from the dollar purchases will be sterilized. By the end of July, international reserves reached USD46.2 billion (13.8% of GDP), which the program would take to roughly 18% of GDP over three years, a level the BCCh has targeted in the past (also considered as an "adequate level" by the IMF). The IMF estimates Chile's reserve levels at 79% of the adequate (ARA), the lowest among free-floating inflation targetters in the region. The program appropriately intends to replace the BCCh's international liquidity access (IMF's FCL for USD13.8 billion, NY Fed's FIMA Repo Facility, others) with its own reserves. In our view, the announcement was likely triggered by the mid-term review of the FCL with the IMF due month's end. The magnitude of daily purchases and the continued sale of dollars by the Finance Ministry mean the FX effect of the program will be limited.

A more gradual cutting cycle

Looking beyond the temporary mining slump, activity data indicates that the economic recovery is on track, consolidating a closed output gap. If activity remains at 2Q25 levels for the rest of the year, the economy will grow by 2.1%, while the non-mining sector will grow by 2.5%. We expect GDP growth of 2.6% this year, mainly driven by recovering mining-related investment. Favorable terms of trade will also support growth. However, as temporary boosts to the economy in the first half of 2025, such as fiscal measures and tourism fade, growth momentum is expected to slow. We envisage average quarter-on-quarter seasonally adjusted growth of 0.4% in the second half, down from 0.6% in the first half. Uncertainty over disrupted production at certain mines during the second half poses a downside risk to our growth forecast.

Our year-end call of 930 CLP per dollar requires a recovery from current spot levels. The exclusion of refined copper from U.S. import tariffs, positive economic growth and investment dynamics, and a weakening global dollar should support currency dynamics going forward. We now see CPI declining to 3.9% by December (+10bps from the previous scenario), aided by base effects. We expect inflation to reach the 3% target during the first half of 2026.

The July monetary policy decision to cut by 25bps to 4.75% was widely expected and confirmed our view that the central bank deems a less contractionary monetary policy is warranted. The macroeconomic scenario is consistent with additional cuts over the coming quarters toward the nominal neutral rate of 4%. With the surprising sequential rise in core prices, we now expect a more gradual cutting path. We expect the MPR to end the year at 4.5%, with the timing of further cuts depending primarily on tactical factors related to both the local and external environment. Following the significant July inflation print, we expect the BCCh to pause in September to evaluate the second-round effects of electricity and wage increases. We see the cycle concluding in the first half of 2026 at 4%.

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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	**2.6**	2.6	**2.0**	2.0
Nominal GDP - USD bn	254	311	302	332	324	**350**	350	**380**	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	**17,314**	17,314	**18,705**	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**	3.8	**3.0**	3.0
Interest Rate									
Monetary Policy Rate - eop - %	0.50	4.00	11.25	8.25	5.00	**4.50**	4.25	**4.00**	4.00
Balance of Payments									
CLP / USD - eop	711	851	851	879	996	**930**	930	**900**	900
Trade Balance - USD bn	18.9	10.3	3.6	13.8	21.0	**19.5**	19.5	**18.0**	18.0
Current Account - % GDP	-1.9	-7.4	-8.8	-3.2	-1.5	**-2.0**	-2.0	**-2.3**	-2.3
Foreign Direct Investment - % GDP	4.5	4.9	6.2	5.5	3.9	**4.0**	4.0	**3.9**	3.9
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**	42.2	**42.7**	42.7
Net Public Debt - % GDP	13.3	20.2	20.4	23.2	26.0	**26.9**	26.9	**27.5**	27.5

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

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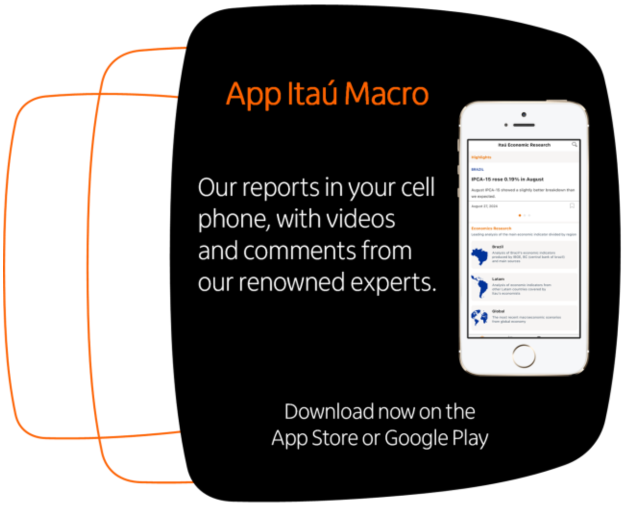

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