BOX II.3:

Structural parameters: trend GDP and equilibrium real exchange rate

Trend GDP

Trend growth is a variable associated with the economy's medium- and long-term growth capacity.[1]/ To estimate it, total GDP is divided into its mining and non-mining components. Following the standard methodology, the estimate of the latter is based on a Cobb-Douglas production function whose determinants are aggregate productivity, productive capital, and labor force, whose expected trajectories are estimated in each revision (Bauducco *et al.*, 2026). In this update, the exercise shows an increase in the contribution of the labor factor to non-mining GDP growth, reaching 0.6 pp in the 2026–2035 decade. This change stems from the inclusion of the new population projections from INE. The contribution of capital to non-mining GDP growth is similar to the previous estimate, standing at 1 pp in 2026–2035. In addition, there is an estimated contribution of 0.35% from total factor productivity (TFP) growth, which also remains unchanged from the previous exercise. With this, trend growth of non-mining GDP is estimated at 2% for 2026-2035 (Table II.8).

To obtain total trend GDP growth, a growth projection for the mining sector is added, which is estimated to be 1.0% per year in 2026–2035. This figure is 0.9 pp lower than the one used in 2024 for the 2025–2034 decade. This is explained by the lower copper production projections for the decade and the historically low average growth of mining GDP. In addition, the mining GDP share of total GDP is reduced from 12% to 11%, in line with the sector's recent average participation. Under these assumptions, total GDP trend growth is 1.9% in 2026–2035, representing an increase of 0.1 pp compared with the estimate in the September 2024 IPoM.

TABLE II.8
Trend growth estimate (1)
(percent)

	Trend growth			Contribution to the growth of non-mining GDP		
Period	Non-mining GDP	Mining GDP	Total GDP	Capital	Labor	TFP
2026-2035	2.0	1.0	1.9	1.0	0.6	0.35

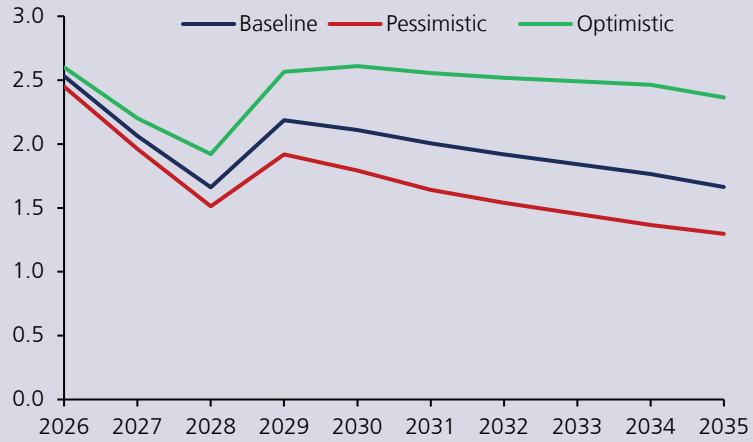
(1) Mining represents 11% of total GDP.
Source: Central Bank of Chile.

Regarding the non-mining component, its expansion is still expected to follow a downward trend. Additionally, two alternative scenarios are considered, both producing similarly declining trajectories. A first scenario—the pessimistic one—assumes a less favorable convergence towards OECD levels for labor-related variables, such as a faster convergence in hours worked and a slower convergence in participation rates and educational attainment, along with lower labor force growth. The optimistic scenario assumes higher TFP growth, which could materialize, for example, if the creation, diffusion, and adoption of new technologies accelerate (Figure II.17).

[1]/ The concept of trend GDP differs from potential GDP. The latter refers to the level of GDP consistent with stable inflation, and therefore is the appropriate measure for gauging the output gap associated with short-term inflationary pressures. Since trend GDP relates to the economy's medium-term growth capacity, both measures converge to the same number in the long run. However, in the short term, transitory elements affecting productive capacity—such as one-off productivity shocks and constraints on factor utilization—may generate differences between the two measures. Hence the importance of analyzing them separately (for further details, see Central Bank of Chile, 2017).

Finally, for the medium-term projections in this IPoM, the average trend non-mining GDP growth for the 2026–2030 period is used, corresponding to 2.1%. This time horizon is appropriate for medium-term projections, as longer horizons relate to an economy whose productive factors differ substantially from those relevant for such projections.

FIGURE II.17
Trend growth trajectory of non-mining GDP
(percent)



Source: Central Bank of Chile.

Long-run real exchange rate (RER)

The long run RER corresponds to the level at which the RER would converge once all shocks dissipate. To estimate it, a set of complementary methodologies is used, each based on conceptually distinct approaches. These range from empirical relationships with observable macroeconomic and financial fundamentals (BEER), to internal and external macroeconomic equilibrium conditions consistent with sustainable balances (FEER), to intertemporal equilibrium dynamics determined by medium- and long-term real fundamentals (NATREX), and purchasing power parity as long-term relative-price anchor (PPA).

Bertinatto *et al.* (2026) show that, on average, the update of these estimates suggests that the long-run RER would lie around 100 (base 1986 = 100), similar to the estimate in the December 2022 IPoM[2]/ and close to its current level (Table II.9). It is worth noting that these estimates are sensitive to both the methodology and the underlying assumptions, including elasticities and unobservable variables on which the models depend.

[2]/ See Minutes in December 2022 IPoM.

TABLE II.9
Long-run equilibrium RER estimate
(index 1986 = 100)

	RER
BEER	94.4
FEER	102.6
PPA	106.3
NATREX	96.6
Average	100
Range	[94; 106]

Source: Central Bank of Chile.

In particular, BEER-based estimates suggest that the RER should converge to more appreciated levels than those observed in recent years, under the assumption that certain financial factors (such as risk and uncertainty premiums) that have tended to depreciate the RER in recent years will dissipate. Furthermore, the long-term projection assumes that the terms of trade will remain at levels similar to those observed in recent years, remaining high from a historical perspective. According to different estimates, Bertinatto *et al.* (2026) find that these factors have acted as opposing forces in the recent dynamics of the RER, along with other factors that have played a less significant role (relative productivity *vis-à-vis* trading partners, monetary policy, etc.).

Conversely, models defining the equilibrium RER as that consistent with the economy's internal and external equilibrium—such as the FEER approach—find that the long-run RER lies closer to levels observed in recent years, consistent with an economy near equilibrium. In particular, with non-mining activity close to potential, a relatively stable international investment position, and a current account that, after adjusting for trend prices, lies close to its sustainable level, the FEER model predicts that the RER does not require significant adjustment relative to last year's level for the economy to return to equilibrium.

The baseline scenario of this IPoM assumes that the RER will gradually converge to its long-run level over the projection horizon, following a trajectory similar to that presented in the December 2025 IPoM.