

Chile's Economic Outlook

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Introduction

Let me begin by thanking BBVA for the invitation to participate once again in this conference and to share my views on the Chilean economic outlook. This has become an important annual meeting, bringing together policymakers, investors and analysts from across the region, and I am very pleased to contribute to the discussion.

As usual, the views I will present today are my own and do not necessarily reflect those of the other members of the Board of the Central Bank of Chile.

I will organize my remarks in three parts. First, I will briefly review how the Chilean economy evolved during 2025 and how we enter 2026. Second, I will discuss inflation dynamics and the conduct of monetary policy over this period. Third, I will conclude by highlighting some challenges and open questions that we consider particularly relevant for 2026.

Economic activity: 2025 in retrospect

From today's perspective, 2025 was, in several respects, a better year than initially expected. Not only did the main macroeconomic indicators evolve more favourably than projected at the beginning of the year, but several risks that appeared material at the end of 2024 ultimately did not materialize.

At that time, the assessment was cautious. Inflation was still elevated, domestic demand remained subdued, and the external environment was restrictive, characterized by high global interest rates and elevated uncertainty. As 2025 unfolded, this diagnosis gradually changed, driven by a sequence of data releases that consistently surprised on the upside.

Economic growth proved to be more resilient and robust than anticipated. Early in the year, concerns centered on weak credit dynamics, a soft labor market and limited

prospects for investment amid global uncertainty. However, as the year progressed, growth outcomes repeatedly exceeded projections, leading to successive upward revisions to the baseline. In particular in the non-mining part of the economy, which will end up growing close to 3%, almost one percentage point more than expected.

A key element behind this reassessment was investment. Gross fixed capital formation ultimately grew close to 7%, well above the expectations held at the beginning of the year. This strength was largely explained by investment in machinery and equipment related to mining and energy projects, supported by higher copper prices, improved global financial conditions and a greater willingness to take risk at the global level.

The recovery of investment has been uneven. Outside mining and energy, investment remains more subdued, particularly in construction, and hard data has yet to confirm a broad-based rebound across sectors.

Private consumption, in contrast, recovered more gradually, but the risk of greater weakness, something that was a preoccupation during the first part of the year, dissipated during the year. Indeed, its fundamentals improved, especially real wage income. However, the labour market delivered mixed signals, with weak job creation couple with significant wage growth, something that has change lately, consistent with an orderly but still incomplete recovery.

The global economy was also important in explaining the better performance of the Chilean economy. 2025 was marked by greater resilience than expected, especially in the United States, where investment related to new technologies—particularly artificial intelligence—supported productivity expectations and financial markets. For Chile, this translated into a meaningful improvement in terms of trade, driven by high copper prices, reflecting not only cyclical demand but also more structural forces such as the energy transition, digitalization and higher global defense spending.

Latest data were slightly below market expectations, but in my view, there are good reasons to think that this is a transitory phenomenon.

Inflation dynamics

Inflation developments were less linear than those of activity. Early in the year, inflation outcomes raised concerns, particularly regarding expectations at longer horizons. During the first half of 2025, inflation declined faster than anticipated,

supported by lower goods prices, easing external cost pressures and the transmission of a previously restrictive monetary stance.

However, this progress was not uniform. Inflation surprised in both directions over the course of the year, making it difficult to distinguish between transitory shocks and more persistent pressures. By the third quarter, the pace of disinflation slowed, and the stronger-than-expected domestic activity led us to reassess inflation risks. While much of the inflation rebound was judged to be transitory, risks to persistence increased and warranted continued caution.

Toward the end of the year, the picture became clearer. Inflation outcomes consistently undershot projections, supported by currency appreciation, lower cost pressures and a more benign external environment. In the last Monetary Policy Report, our assessment was that inflation will converge to the 3% target during the first quarter of 2026, closing a prolonged period of elevated inflation.

The composition of inflation has been central to this assessment. Goods prices were more volatile and strongly influenced by exchange rate movements, while services inflation proved more persistent and declined more slowly. Encouragingly, services inflation is now close to its historical averages. Overall, inflation dynamics are consistent with an economy that has largely restored its macroeconomic balances.

Entering 2026, Chile's macroeconomic position is clearly stronger than a year ago: inflation is converging to target, expectations remain well anchored, activity has recovered and the external impulse is more supportive. Nonetheless, challenges remain, particularly regarding services inflation, labor market slack and a still uncertain global environment.

Monetary policy: interpretation and response

These developments were reflected in the conduct of monetary policy throughout 2025. Over the year, monetary policy definitively moved away from the clearly restrictive stance that characterized previous years. In real terms, the policy rate gradually approached levels slightly above the estimate of neutral.

The nominal policy rate was normalized gradually, in line with changes in expected inflation. Policy decisions were not mechanical; rather, they reflected a careful reading of incoming information. At certain points, caution was warranted, particularly when inflation persistence or demand strength appeared higher than

anticipated. At other moments, the available information allowed us to proceed with greater confidence.

Market expectations and financial conditions played an important role in this process. At the current level, with the policy rate at 4.5%, my assessment is that monetary conditions remain mildly contractionary. That said, measuring the degree of restrictiveness is inherently uncertain.

Our estimate of the real neutral rate lies within a relatively wide range, between 0.75% and 1.75%, with a benchmark value around 1.25%. From a longer-term perspective, real policy rates have declined substantially over the past two decades, both in Chile and globally. Looking ahead, a combination of higher global investment demand and lower aggregate savings could keep real rates somewhat higher than in the pre-pandemic period, although the magnitude and persistence of this shift remain uncertain and will need to be monitored carefully.

Challenges and open questions for 2026

Let me conclude by highlighting three issues that I believe will be particularly relevant in 2026.

First, the combination of stronger-than-expected activity and a more benign inflation outcome raises the question of whether productivity growth may be improving. Some indicators point in that direction, and our baseline incorporates a marginal upward revision to potential growth. Recent analysis by the Comisión Nacional de Productividad point towards that direction. New census data may also lead to future reassessments of trend growth. While these developments are encouraging, it remains too early to draw firm conclusions about their durability, but understanding the consequence of higher growth to inflation dynamics could be one important element for next year.

Second, the evolution of the real exchange rate deserves close attention. Currency appreciations typically occur alongside strong demand and investment, as part of a general equilibrium adjustment. While part of the recent appreciation may reflect stronger fundamentals, it is not obvious to me how much reflects a correction from previously elevated currency risk premium, a issue that was at the center of my presentation here two years ago. This distinction will matters for assessing inflation dynamics and the appropriate monetary policy response.

Third, although the external environment evolved more favorably than expected in 2025, uncertainty remains elevated. Geopolitical risks, trade tensions, fiscal sustainability concerns in advanced economies, uncertainties surrounding China's outlook and high asset valuations all remain relevant. A sudden shift in global sentiment cannot be ruled, just see how many things have already happened during the first month of the year: Venezuela, Iran and Powell to just mention some of them. This is particularly relevant in an environment where financial assets valuation remains high.

Conclusions

Taken together, the information available suggests that the Chilean economy has largely completed its macroeconomic adjustment and entered a phase of normalisation. In 2025, Chile moved from the final part of adjustment to a normal stance in an orderly manner. Inflation has been brought back under control, expectations remain well anchored, and activity has strengthened without generating significant imbalances.

This outcome reflects a robust macroeconomic framework and prudent, flexible monetary policy decisions. Looking ahead, the challenge for 2026 will be to consolidate the progress achieved, continue to interpret data carefully, and preserve the credibility that has been central to Chile's macroeconomic stability, in a global environment that remains uncertain.