

Chile's Macro Normalization in a Not-So-Normal World*

Goldman Sachs LATAM Macro Conference 2026

Alberto Naudon

Deputy Governor, Central Bank of Chile

March 4, 2026 | via on line

1. Introduction

Thank you for the invitation. It is a pleasure to be here and share some reflections on the Chilean economy.

Let me begin with the usual disclaimer: the views I will present today are my own and do not necessarily represent those of the other members of the Board of the Central Bank of Chile.

The title of my remarks today is “Chile’s Macroeconomic Normalization in a Not-So-Normal World.”

I chose that title a few days ago, but recent events have made it even more appropriate.

Indeed, speaking about the global economy today is particularly risky. It seems we may be in the middle of a “before and after” moment.

Over the weekend, geopolitical tensions escalated sharply following developments involving Iran. Markets reacted quickly: energy prices moved, financial volatility increased, and several indicators adjusted rapidly.

In the days that followed, some variables deteriorated while others partially improved. Overall, the dominant feature has been heightened volatility across markets, a risk-off sentiment, and many open questions.

As we speak, the situation continues to evolve. It is still too early to draw firm conclusions about the macroeconomic implications.

However, the episode reminds us how quickly the global environment can change, and how geopolitical developments can affect markets, financial conditions, and expectations.

* I am grateful for the comments and help of Elias Albagli, Markus Kirchner, and Guillermo Carlomagno. All errors are my responsibility.

My main message today is relatively simple.

Chile enters 2026 from a much stronger macroeconomic position than a year ago.

Inflation has fallen substantially.

Monetary policy has advanced significantly in its normalization process.

And economic activity has shown more resilience than expected.

At the same time, perceptions about Chile and Latin America have improved over the past year. Many investors increasingly see the possibility of a stronger growth phase ahead.

However, the global environment remains far from normal.

Even before the recent escalation, the world economy was navigating a complex set of risks: geopolitical tensions, fiscal pressures, technological transformations, and evolving financial conditions.

The events of the past few days should therefore not be interpreted as the emergence of a new environment. Rather, they represent the materialization of risks that were already present and that we had been highlighting.

Today I will organize my remarks around three themes.

First, I will discuss how Chile has progressed in its macroeconomic normalization process, and how recent global developments introduce some caution around that trajectory.

Second, I will discuss why the fundamentals of the Chilean economy appeared stronger heading into 2026.

Third, I will conclude with some reflections on the global environment and its possible effects on the Chilean economy.

2. Chile's macroeconomic normalization

Let me begin with the domestic macroeconomic picture.

Over the past two years, Chile has undergone a significant macroeconomic adjustment.

After the imbalances that emerged following the pandemic—high inflation, excess domestic demand, and strong external pressures—the economy has gradually moved back toward a more balanced configuration.

Inflation has fallen substantially from its peak, and the disinflation process has progressed broadly in line with our expectations. While the path has not been perfectly smooth, the overall trajectory has been one of convergence toward our target.

At certain points during the adjustment, the behavior of core inflation raised concerns and justified a cautious approach to monetary policy. Over time, however, inflationary pressures gradually moderated.

Several factors contributed to this process.

Monetary policy remained restrictive for a sustained period, helping anchor inflation expectations. Domestic demand normalized following the extraordinary expansion during the pandemic. And external conditions were relatively supportive through much of 2025, as global growth proved more resilient than expected.

These developments were also reflected in the exchange rate. During part of this process the Chilean peso appreciated significantly, contributing to moderating imported inflation.

As inflation declined, monetary policy entered a new phase.

Over the past year and a half, the policy rate has been reduced significantly. As a result, the stance of monetary policy has moved from clearly restrictive territory toward a position closer to neutral.

Even so, real interest rates have remained slightly above the midpoint of our estimates of neutral levels, suggesting that the policy stance remains mildly contractionary. This reflects a gradual and prudent normalization process.

Economic activity has also been somewhat stronger than expected.

Investment in sectors such as mining and energy has been an important driver of growth, and non-mining activity has shown resilience.

Recent indicators confirm moderate but stable growth, although with some heterogeneity across sectors.

The labor market also requires careful interpretation.

Employment has continued to grow, though at a relatively moderate pace. This could reflect at least in part slower labor force expansion compared with the more migration-driven dynamics of previous years. In that sense, the pattern is not very different from what we observe in economies such as the United States. But of course there are other elements that are relevant such as technological changes and the impact of some regulation.

At the same time, real wages have been rising as inflation declines.

Combined with continued employment growth, this implies that overall labor income has continued to expand, consistent with current consumption growth and broadly aligned with potential trends.

Overall, the Chilean economy entered 2026 with a relatively solid macroeconomic starting point: inflation close to target, monetary policy approaching neutral, and activity showing stable growth consistent with potential.

Of course, this assessment was based on the global environment that prevailed until very recently.

3. Stronger fundamentals entering 2026. How much will remain is one of the big questions.

Before the recent geopolitical escalation, the global environment appeared somewhat more favorable for Chile than a year earlier.

Global growth had proven resilient. Commodity prices—particularly copper—remained supportive. And financial conditions had improved compared with the more uncertain environment of previous years.

Technological developments, especially the rapid expansion of artificial intelligence, were also supporting investment and activity in several parts of the global economy.

Together, these factors created a favorable environment for commodity-exporting economies such as Chile.

Copper prices remained relatively high, reflecting both cyclical conditions and structural drivers related to electrification, digitalization, and the energy transition.

This dynamic has supported investment in the mining sector, one of the main drivers of Chilean growth over the past year.

More broadly, perceptions of Latin America among global investors have also improved.

In a world characterized by geopolitical fragmentation and slower growth in some advanced economies, the region has increasingly been viewed as relatively attractive.

Chile benefits from several structural strengths: a credible macroeconomic framework, strong institutions, and a central role in the supply of strategic commodities. All these translated in a relevant improvement of local expectations and sentiment.

However, improved expectations do not automatically translate into stronger growth.

The key challenge is to convert these favorable conditions into a broader and more sustained expansion of investment and productivity.

If that occurs, the coming years could mark the beginning of a stronger growth phase for the Chilean economy.

But this outcome will depend not only on domestic developments, but also on how the global environment evolves.

4. A world that remains far from normal

Even before the recent escalation involving Iran, the global environment was already characterized by significant uncertainty.

In many ways, the world economy was operating in what we might call a not-so-normal environment, marked by geopolitical tensions, elevated fiscal deficits, and rapid technological change.

The recent developments in the Middle East represent the materialization of risks that were already present in the global landscape.

At this stage, the key uncertainty is not only the initial market reaction.

What ultimately matters is the persistence of the conflict and its scope.

In particular, much will depend on whether tensions remain contained or expand in ways that affect critical energy and transportation corridors in the region. Developments involving the Strait of Hormuz are especially relevant.

These factors will determine whether the current episode remains a temporary shock or evolves into something with broader macroeconomic implications.

For countries like Chile, the main issue is how these developments affect global financial conditions, commodity markets, and investor sentiment.

From a monetary policy perspective, the first distinction is whether the shock proves transitory or more persistent. If the increase in energy prices is temporary, it typically leads to a temporary rise in headline inflation, with limited effects on core inflation and on medium-term inflation dynamics. In such cases, monetary policy generally looks through the initial increase in inflation, focusing instead on the underlying inflation process and on the evolution of inflation expectations.

If the shock proves more persistent, the situation becomes more complex. Higher oil prices and a more sustained depreciation of the peso could initially generate additional inflationary pressures. At the same time, however, such shocks often have contractionary effects on activity over the medium term, through tighter financial conditions, weaker external demand, and lower real income. The interaction of these forces makes the monetary policy response less straightforward. Ultimately, much depends on how inflation expectations evolve and on whether the shock changes the persistence of the inflation process. In many cases, however, the weakening of activity tends to become the dominant force over the horizon relevant for monetary policy decisions.

More broadly, global risks extend beyond geopolitics.

Fiscal dynamics in advanced economies remain a significant source of uncertainty, with high public debt and persistent fiscal deficits.

Technological transformations—particularly the rapid expansion of artificial intelligence—also represent both an opportunity and a potential source of financial volatility.

Taken together, these elements illustrate a global environment that combines resilience with important underlying vulnerabilities.

5. Concluding remarks

Let me conclude with a few reflections.

The recent events in the Middle East have once again reminded us that the global economy continues to operate in an environment where geopolitical risks remain significant. The immediate transmission of these events has occurred mainly through financial markets and energy prices. Oil and gas prices have incorporated a higher geopolitical risk premium, while financial markets have experienced an increase in volatility as investors reassess risks and possible scenarios.

At this stage, however, the magnitude of the energy shock remains considerably smaller than what we observed during the 2022 energy crisis following Russia's invasion of Ukraine.

Markets currently appear to be pricing a shock that may prove at least partially temporary. Nevertheless, uncertainty remains high and the evolution of the conflict — particularly its persistence and scope — will be critical in determining the macroeconomic implications going forward.

One important lesson from previous episodes is that geopolitical shocks affect the economy not only through commodity prices, but also through increases in uncertainty. Higher uncertainty tends to raise risk premia, tighten financial conditions, and delay investment decisions. In that sense, the uncertainty channel may ultimately prove as important as the direct impact of higher energy prices.

The global consequences of these shocks are also highly heterogeneous. Countries that export energy may benefit from stronger terms of trade and improved external accounts, while energy importers tend to face higher inflation and weaker external balances. For economies such as Chile, which are net importers of hydrocarbons, higher oil prices represent a negative terms-of-trade shock, although its ultimate macroeconomic impact will depend on the persistence of the increase in energy prices and on the response of financial markets.

From a monetary policy perspective, the key issue is whether these shocks alter the persistence of inflation and the behavior of inflation expectations. Energy shocks tend to raise headline inflation in the short term. But as long as inflation expectations remain well

anchored, central banks can typically look through temporary increases in inflation and focus on the medium-term outlook. If the shock proves more persistent, the situation becomes more complex, as higher inflationary pressures may coexist with weaker activity.

More broadly, what recent events highlight is that the global economy had already been operating in a context of elevated uncertainty even before these developments. In that sense, the current situation should perhaps be understood less as an isolated event and more as the materialization of a world that had already become more volatile and more shock-prone.

In such an environment, the task of policymakers is not only to respond appropriately to individual shocks, but also to maintain macroeconomic stability and credibility so that economies remain resilient when these shocks inevitably occur.

Thank you very much.