

Alberto Naudon: Chile's macroeconomic normalization in a not-so-normal world

Speech (virtually) by Mr Alberto Naudon, Deputy Governor of the Central Bank of Chile, at an event, organised by Goldman Sachs, Santiago de Chile, 4 March 2026.

* * *

[Presentation](#) accompanying the speech

A. Introduction

Thank you very much for the invitation and for the opportunity to share some reflections on the outlook for the Chilean economy. It is a pleasure to be part of this seminar and to contribute to the discussion on the current economic environment and the challenges ahead.

As usual, let me begin by noting that 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 review the evolution of the Chilean economy during 2025 and into early 2026, with an emphasis on how the diagnosis changed over the course of last year. I will then explain how these developments were reflected in the conduct of monetary policy. Finally, I will conclude by highlighting some challenges and open questions that I believe will be particularly relevant in 2026.

B. Economic developments

Activity

Let me begin with economic growth, which proved more resilient and stronger than initially anticipated. At the beginning of last year, the main concerns were weak credit dynamics, a fragile labor market, and limited investment prospects, all against a backdrop of elevated global uncertainty. As 2025 progressed, however, activity data repeatedly exceeded projections, leading to successive upward revisions to the baseline scenario. This was reflected, in particular, in systematic increases in the lower bound of the projected growth range.

This performance is especially noteworthy given that mining activity grew less than expected. Even so, the non-mining component of the economy is set to expand by close to 3 percent, almost one percentage point above initial estimates, pointing to a more broad-based recovery in domestic activity.

Two main factors lie behind this reassessment of growth, with implications both for the close of 2025 and for the outlook going forward.

The first is the external environment. The global economy proved more resilient than expected during 2025, especially in the United States, where investment linked to new

technologies-particularly artificial intelligence-boosted productivity expectations and supported strong financial market performance. For Chile, this translated into a significant improvement in terms of trade, driven by high copper prices reflecting not only cyclical factors but also more structural trends, such as the energy transition, digitalization, and higher global defense spending. This more favorable external environment has supported both recent performance and improved activity and demand prospects.

The second factor is investment. According to our latest projections, gross fixed capital formation grew by close to 7 percent in 2025, well above expectations at the beginning of the year. This strength was driven mainly by investment in machinery and equipment associated with large mining and energy projects, supported by high copper prices, improved global financial conditions, and stronger global risk appetite. That said, the recovery has been uneven. While investment in machinery and equipment remains strong, construction - particularly real state- continues to lag behind. The outlook for large projects, especially in energy, continues to improve, and high copper prices are likely to keep supporting mining investment, with early signs of stronger momentum also emerging in other sectors.

Private consumption, by contrast, recovered more gradually. Still, the risk of a sharper slowdown-an important concern in the first part of the year-gradually faded. Fundamentals improved, particularly through gains in real labor income. The labor market sent mixed signals, combining limited job creation with strong wage growth, a pattern that has begun to normalize recently, consistent with an orderly but still incomplete recovery. In this context, short-term indicators suggest that consumption growth will remain broadly in line with expectations, supported by stronger wage mass, improving expectations, and a more appreciated exchange rate, while unemployment has remained relatively stable.

More recent activity data showed some moderation that probably will extend to beginning of this year. This relative weakness is mainly explained by supply-side factors and transitory elements related to certain services. Importantly, there are no signs of a deterioration in domestic demand. Spending indicators, both for consumption and investment, remain consistent with the central scenario, and household and business expectations continue to improve.

This diagnosis is consistent with recent developments in local financial variables. Equity markets have performed well, the peso has appreciated, interest rates have moved only modestly, and credit remains broadly stable. According to the Bank Lending Survey, supply conditions have remained relatively unchanged, while housing demand has shown signs of improvement. Taken together, these more favorable financial conditions reinforce the outlook for activity and demand going forward, in a context where consumer and business confidence has improved markedly.

Looking at the broader picture, while some recent data came in slightly below what was projected in the December Monetary Policy Report, this mainly reflects transitory factors and does not alter the overall cyclical assessment. Growth in 2025 may end up somewhat lower than projected in December, but the fundamentals for consumption and investment remain consistent with the baseline scenario. Medium-term expectations for activity appear to be improving, supported by a more favorable external

environment, better financial conditions, a notable rebound in confidence, and the momentum of investment. At the same time, our assessment explicitly recognizes that recent positive surprises do not mechanically translate into a higher growth path, and that policy must remain robust to scenarios in which momentum fades.

Inflation

Inflation followed a less linear path than activity. Early in 2025, inflation outcomes raised concerns, particularly regarding expectations at longer horizons. During the second half of last year, inflation declined faster than anticipated, supported by lower goods prices, easing external cost pressures, and the lagged effects of previously restrictive monetary policy.

This process, however, was not smooth. Throughout the year, inflation surprised both on the upside and the downside, complicating the distinction between transitory shocks and more persistent pressures. By the third quarter, the pace of disinflation slowed, and stronger-than-expected domestic demand led to a reassessment of inflation risks. While a significant share of the rebound was judged to be transitory, persistence risks increased, calling for greater caution.

Toward the end of 2025, the picture became clearer. Inflation outcomes consistently undershot projections, supported by exchange-rate appreciation, lower cost pressures, and a more benign external environment. In the latest Monetary Policy Report, our assessment was that inflation would converge to the 3 percent target during the first quarter of 2026, bringing to a close a prolonged period of elevated inflation.

The composition of inflation has been central to this assessment. Goods prices were more volatile and highly sensitive to exchange-rate movements, while services inflation proved more persistent and declined more slowly, in line with elevated labor costs accumulated in recent years. Encouragingly, services inflation is now closer to its historical averages. That said, this convergence still requires confirmation over time, particularly given lingering labor market tightness and the sensitivity of services inflation to wage dynamics. For this reason, services inflation remains a central focus of my inflation assessment.

In the most recent data, headline and core inflation stood at 3.5 and 3.3 percent year on-year, respectively. The decline in core inflation has been driven mainly by goods prices, supported by peso appreciation and lower international prices, partly related to trade re-routing. At the same time, two-year-ahead inflation expectations remain firmly anchored at 3 percent in both the Economic Expectations Survey and the Survey of Financial Operators.

Looking ahead, cost factors-particularly the exchange rate and international fuel prices-will continue to play an important role in short-term inflation dynamics. In this context, headline inflation is likely to remain below 3 percent for several months during the first half of the year. Over the medium term, however, we remain confident that inflation will converge sustainably to the target, given the absence of significant activity gaps, improved macroeconomic fundamentals, and expectations that remain well aligned with the Central Bank's objective.

C. Monetary policy

These developments were reflected directly in the conduct of monetary policy throughout 2025. Over the year, policy gradually moved away from the clearly restrictive stance that had characterized previous periods, with the real policy rate approaching levels slightly above our estimate of neutral.

The normalization of the nominal policy rate was also gradual and consistent with changes in expected inflation. Policy decisions were not mechanical; rather, they reflected a careful and continuous assessment of incoming information. At times, greater caution was warranted, particularly when inflation persistence or demand strength exceeded expectations. At other moments, the outlook allowed us to proceed with greater confidence.

Market expectations and financial conditions played an important role in this process. With the policy rate at 4.5 percent, my assessment is that monetary conditions remain mildly contractionary.

Our estimate of the real neutral rate lies within a relatively wide range, between 0.75 and 1.75 percent, with a benchmark value around 1.25 percent. From a longer-term perspective, real interest rates have declined substantially over the past two decades, both in Chile and globally. Looking ahead, a combination of stronger 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 require close monitoring.

At its most recent meeting, the Board unanimously decided to keep the policy rate at 4.5 percent, in line with market expectations. It also noted that it will assess the implications of recent developments-particularly inflation running below the December projection in the short term, and demand evolving broadly as anticipated for the March Monetary Policy Report.

In my view, this decision is reasonable for several reasons.

First, the recent weakness in activity largely reflects transitory factors. Weaker readings were associated with specific events-such as the Latam strike-and seasonal factors, including the cherry harvest. At the same time, medium-term prospects have improved, as reflected in different fundamentals, surveys, the investment pipeline, and other indicators. This stronger outlook could also be pointing to an increase in potential growth, an issue that will require deeper analysis in the March IPoM. Moreover, it is common for improvements in expectations and demand to generate, at least temporarily, positive activity gaps.

Second, short-term inflation pressures have eased, to a significant extent due to the appreciation of the peso. This movement reflects both improved domestic prospects and a global depreciation of the dollar, as well as the significant increase in copper prices. Such shocks tend to reduce inflation in the short run but can have different effects at longer horizons, horizons that are particularly relevant for monetary policy.

Finally, inflation expectations remain well anchored. Both the Economic Expectations Survey and the Survey of Financial Operators show expectations aligned with the Central Bank's target over the medium term, supporting the decision not to make further adjustments at this stage of the cycle.

D. 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. At the same time, we remain cautious in interpreting these signals, as recent gains could reflect cyclical factors, changes in factor utilization, or measurement effects rather than a sustained increase in trend productivity. For this reason, we are explicitly stress-testing our projections under alternative assumptions in which productivity gains prove temporary rather than structural. Recent analysis by the National Productivity Commission points in a similar direction, and new census data will also be important input for further reassessments of trend growth. Understanding the implications of higher growth for inflation dynamics and for the labor market—where unemployment has remained elevated—will be an important task going forward.

Second, the evolution of the real exchange rate warrants 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 clear how much corresponds to a correction of a previously elevated currency risk premium. This distinction 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 continue to be relevant. A sudden shift in global sentiment cannot be ruled out—just consider how many events have already occurred in the first month of the year alone: Venezuela, Iran, and Powell, to name just a few. This is particularly relevant in an environment where financial asset valuations remain high.

E. Conclusions

Taken together, the available information suggests that the Chilean economy has made significant progress in its macroeconomic normalization process. The year 2025 turned out better than expected at the beginning of the year, both in terms of activity and inflation, and it did so without the accumulation of major imbalances.

Activity proved more resilient than anticipated, supported by a more favorable external environment, a strong—though uneven—recovery in investment, and a gradual improvement in consumption fundamentals. At the same time, inflation followed a less linear path but is now converging toward the target, with well-anchored expectations

and a composition consistent with an economy that has largely restored its macroeconomic balances.

In this context, monetary policy was able to proceed gradually and prudently with normalization, moving away from a clearly restrictive stance while maintaining a cautious orientation, consistent with the data, the balance of risks, and the need to preserve the credibility of the policy framework.

Looking ahead, the challenge for 2026 will be to consolidate these gains in an environment that remains uncertain. This will require correctly interpreting whether improved activity prospects reflect more permanent changes in productivity and potential growth, assessing the implications of improved demand fundamentals for medium-term inflation, understanding the role of the real exchange rate and its interaction with inflation, and navigating an external environment where geopolitical, financial, and fiscal risks remain present.