Chile

Turning the corner as investment takes the lead

Chile is set to close 2026 below start-of-year expectations. The combination of weaker results in natural resource sectors and the fuel price shock, which hit disposable income and household expectations, explains much of the underperformance. For 2027 and 2028, the outlook improves: investment should lead the recovery, inflation will converge relatively quickly, and the labour market could begin to rally.

Andrés Sansone
Lorena Palomeque

What happened in 2026 and why it disappointed. The year began with high expectations for gross domestic product (GDP) growth, with consensus estimates rising above 2.5% during the first part of the year. Yet, as 2026 progressed, activity weakened significantly, and our latest forecast suggests the economy will end the year with virtually no growth.

Three factors largely explain this weaker performance. First, a decline in natural resource sectors, particularly a sharp drop in mining output. Agriculture, fishing and the food-related industry also faced significant disruptions during the year, whether due to sector-specific challenges or adverse weather conditions. Second, the oil shock, which passed through rapidly to domestic fuel prices, and the resulting fall in disposable income. This was compounded by a deterioration in expectations, with consumers and firms revising theirs downwards. Finally, public investment fell sharply during the first half of the year as part of fiscal consolidation.

In 2027, GDP is predicted to grow above 3%, with investment being the main driver. On the one hand, the pipeline of large-scale projects continues to grow strongly. On the other, the Reconstruction Law, which prescribes a reduction in corporate taxes, provides an additional boost that is set to add around 0.5 percentage points to annual growth in 2027 and 2028. Gross fixed capital formation is forecast to grow by more than 5% next year. Consumption, by contrast, looks likely to recover more gradually because its fundamentals remain weak: employment is falling, real wages have been eroded by inflation and confidence is still in pessimistic territory.

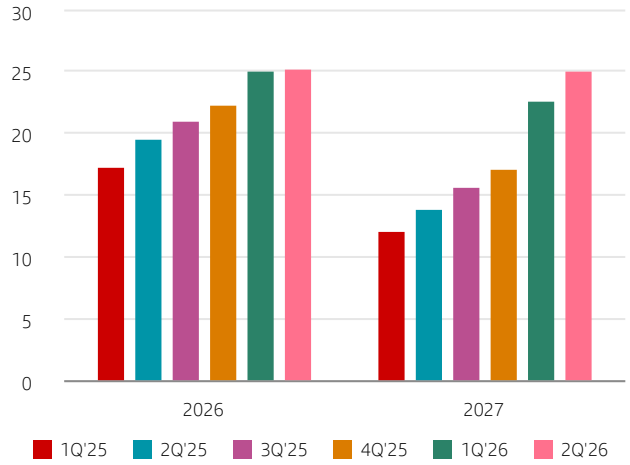
The labour market has shown a marked deterioration. Job destruction has been observed over the past year, particularly in formal salaried employment, and the unemployment rate stood above 9% for much of 2026. This high rate reflects both cyclical deterioration and a larger structural component that is associated with higher labour costs and demographic changes. Cyclical deterioration should start to ease during 2027 as the economy recovers.

Chile

The rise in inflation is explained by the oil shock. At the start of the year, inflation stood below the 3% target, but the fuel price shock pushed it above 4%. No significant second-round effects have been observed, partly contained by the weakness of domestic demand. We expect to close the year at around 5% and to see a rapid convergence towards 3% during 2027, as the energy shock normalises and drops out of the comparison base. Core inflation looks set to remain close to 3% throughout the forecast horizon.

We expect the Central Bank to keep the monetary policy rate at 4.5% for an extended period. Although domestic demand has weakened, inflation is still elevated, with latent risks; next year, we estimate that inflation convergence will occur alongside the rebound in activity. This asymmetry leaves little room for cuts.

Chile: Capex outlook strengthens on large-scale projects
(bn of US $)



Note: bars show quarterly investment projections for each year.
Sources: Chilean Corporation of Capital Goods and Santander Research.

Chile: Unemployment reaches highest rate since Covid era
(%)



Sources: Chile's National Institute of Statistics and Santander Research.

Macroeconomic forecasts

	2026e	2027e	2028e
GDP growth (%)	0.0	3.5	2.8
Unemployment rate	8.9	8.5	8.1
CPI inflation	3.9	3.5	3.0

Source: Santander Research. Annual average.

Reforms and growth

Average growth over the past 15 years has been below that recorded in previous decades. Part of this weaker momentum reflects global factors, such as the stagnation of international trade, and sector-specific factors such as lower copper grades, but there are domestic factors at play too: a higher regulatory burden, longer approval times for investment projects and lower expected returns on capital in an environment of limited innovation.

Reforms to unlock investment

Against this backdrop, the recently approved Law for National Reconstruction and Economic and Social Development represents a constructive move to support investment. Although it contains measures of different kinds, its most important components from a macroeconomic perspective are those that affect supply: lower burdens on investment and shorter processing times.

The main provisions are:

• **Reduction of the corporate income tax** from 27% to 23%, phased in gradually through 2029, which will increase the post-tax return on investment projects, improve incentives to invest and strengthen the country's competitiveness as a destination for capital.

• **Simplification and acceleration of environmental and sectoral permitting procedures**, limiting the timeframes for resolving environmental appeals, restricting subsequent administrative reviews and streamlining certain permits. Shorter approval times will reduce the financial cost of projects, lower regulatory uncertainty and increase the likelihood that new investments will materialise.

The bill also includes other measures that may be relevant for the investment climate, although their impact on gross domestic product (GDP) is more uncertain. These include the gradual reintegration of the tax system and the establishment of a tax invariability regime for large investment projects. The latter applies to initiatives starting at 50 million US dollars, with stability periods of between 10 and 20 years depending on the amount committed and in exchange for a permanent 1.5% surcharge on the First Category Tax for companies that opt into this regime. These measures seek to provide greater tax certainty and reduce uncertainty for long-term projects.

Estimated impacts

Together, these measures are relevant for capital-intensive sectors in which Chile has comparative advantages, but also long and costly approval processes.



Chile

In focus

Our estimates suggest that the effects on the level of activity will be significant. In our central path, the level of GDP would be 5.5% higher in 2035 and 6.3% higher in 2040 than in a no-reform scenario. The latter figure contrasts somewhat with the government's estimate of 8.6%, a level that would stand above the 90th percentile in our estimates. Nevertheless, the effects remain positive even under more adverse assumptions regarding the scale and speed of implementation.

Fiscal considerations

Stronger economic growth broadens the tax base and strengthens fiscal revenues over time, although its effects materialise with a lag. In addition, empirical evidence suggests that the revenue loss from a tax-rate cut is not fully offset by greater economic dynamism, thereby weakening the fiscal balance. Consequently, as the law has been approved, an increase in the fiscal deficit should be expected over the coming years.

The starting point is demanding. Chile ended 2025 with an estimated fiscal deficit of 2.8% of GDP, and we project the country will close 2026 with a deficit of 2.4% of GDP. In this context, the reform's transition period is relevant: in our central-path scenario, the fiscal balance associated with the bill would remain in deficit until approximately 2035, with an additional deficit of between 0.2% and 0.5% of GDP for much of the 2026–2033 period. This could eventually translate into higher debt and higher long-term interest rates.

From challenge to opportunity

The reform may help unlock investment, but persistent growth requires a broader agenda. Chile has significant opportunities in mining, energy, infrastructure, agro-industry, tourism and digital services. However, taking advantage of them does not depend solely on reducing permitting requirements or improving tax incentives. It also demands expansion of the labour base, a strengthening of human capital and an acceleration of the adoption and development of new technologies.

One first margin is labour participation, especially among women. Improving access to quality care services and advancing policies that facilitate the reconciliation of work and family life would increase the available labour force, reduce income gaps and raise potential growth. In an economy facing less favourable demographic headwinds, bringing more people into the labour market constitutes one of the main available sources of growth to offset the slower expansion of the working-age population.

A second point is skills development. The economy of the future will require workers with stronger digital capabilities, adaptability and knowledge of new technologies, including artificial intelligence. Improving education, technical training and reskilling is essential if new investments are to translate into higher wages, productivity and labour mobility.



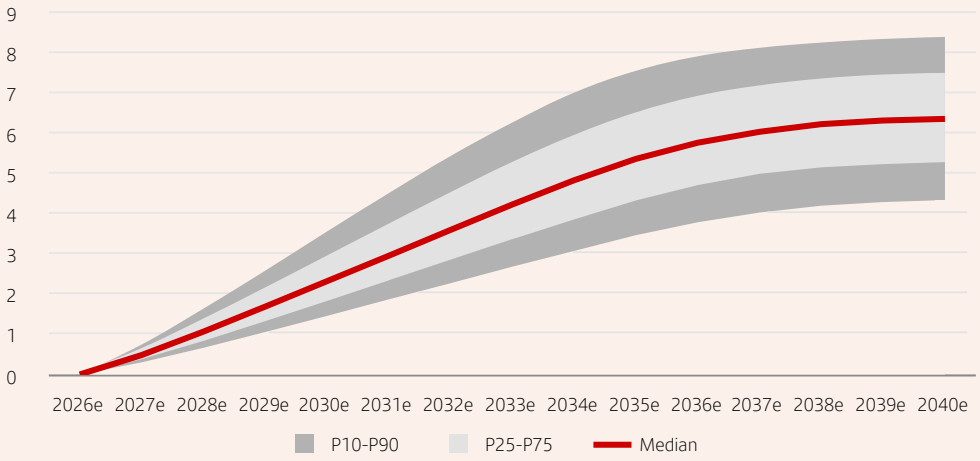
Chile

Finally, Chile needs to strengthen its innovation ecosystem. Innovation should not be understood only as frontier research, but also as the ability to incorporate technology, improve processes and raise productivity in traditional sectors. This requires greater technological adoption by firms, stronger links between universities and the productive sector, financing for scalable ventures and an institutional framework that facilitates the diffusion of new solutions.

Conclusion

In summary, an agenda that reduces barriers to investment can significantly raise the economy's potential growth. However, to fully seize the opportunities facing it, Chile's reforms will need to be complemented by policies that increase labour participation, strengthen human capital and accelerate innovation. In this sense, only a comprehensive strategy will make it possible to sustain higher growth rates, improve household incomes and strengthen public finances over the long term.

Chile: Simulation of the cumulative increase in the level of GDP
(difference relative to the no-reform scenario, %)



Note: Simulations of the reform's impact on the level of GDP: median, 25th to 75th percentile and 10th to 90th percentile.
Source: Santander Research.