

POLITICAL TRANSITION AND STRUCTURAL CHALLENGES IN THE MINING SECTOR

Chile's economic growth will slow very slightly in 2026 but will remain close to its potential, while inflation will fluctuate around the 3% target. The mining sector continues to be an important driver of growth: high copper and lithium prices are bolstering exports and investment projects. The pace of fiscal consolidation and the investment outlook will largely depend on the new government's ability to implement the economic measures announced during the presidential campaign. Despite the proliferation of initiatives aimed at developing the AI sector, its contribution to growth remains low. Mining resources are an asset and projects are multiplying, but environmental and social constraints will have to be addressed.

NEW GOVERNMENT TAKES OFFICE

On 11 March, José Antonio Kast's government, elected last December, will take office. According to initial announcements, the president intends to reverse several policies enacted by the previous administration. He is expected to propose fiscal consolidation measures and reforms aimed at reducing State involvement in several mining projects, particularly those involving lithium. A number of social and environmental regulations are also expected to be relaxed. The aim is to encourage foreign investment, especially in the artificial intelligence (AI), renewable energy and critical materials sectors.

In the very short term, we do not anticipate any sudden changes in economic policy. The results of the parliamentary elections, which were held on the same day as the presidential election, did not allow any single party to obtain an absolute majority in Congress. Consequently, Congress will remain divided, and the new government will have to negotiate with multiple parties to advance its policies and likely form various coalitions based on the projects proposed.

Finally, the change in government is bound to have geopolitical ramifications. According to initial announcements, Mr Kast aims to improve bilateral relations with the United States, which could translate into stronger trade ties between the two countries (currently, 17% of Chile's total exports go to the United States) and increased US investment, particularly in the mining sector. In terms of FDI flows, the United States is the second largest investor (accounting for nearly 10% of the total), behind Canada (15% of the total) and far ahead of China (1%). At the same time, President Kast has acknowledged that China is too important a partner to jeopardise trade relations between the two countries (China is Chile's largest trading partner, accounting for nearly 40% of total exports). However, relations are likely to be more strained compared to those under the previous administration.

ECONOMIC GROWTH CLOSE TO ITS POTENTIAL

Following a growth rate of 2.3% in 2025, real GDP growth is expected to slow only slightly in 2026, to 2.2%. Historically high copper prices and favourable trade conditions have bolstered exports and have at least partially mitigated the temporary decline in copper production seen in 2025 as several sites were forced to close due to mechanical and maintenance issues (Chart 1).

Domestic demand will remain robust. Controlled inflation, together with the recent increase in the minimum wage, will bolster household consumption. Outgoing President Gabriel Boric has raised the minimum wage several times, resulting in a total rise of around 55% during his term in office.

For the mining sector, which accounts for around 50% of exports and 10% of GDP, the outlook for 2026 is similar to that for 2025: copper prices are expected to remain high, thereby bolstering exports. How-

FORECASTS					
	2023	2024	2025e	2026e	2027e
Real GDP growth, %	0.2	2.6	2.3	2.2	2.4
Inflation, CPI, year average, %	7.6	3.9	4.2	3.0	3.0
Central Gov. balance / GDP, %	-2.5	-2.8	-2.6	-2.0	-1.8
Public debt / GDP, %	39.4	41.7	43.0	42.8	42.4
Current account balance / GDP, %	-3.5	-2.5	-1.8	-2.0	-2.4
External debt / GDP, %	71.9	74.4	73.3	73.0	72.5
Forex reserves, USD bn	46.3	44.4	46.3	48.0	49.7
Forex reserves, in months of imports	7.0	7.3	7.5	7.6	7.8

TABLE 1

e: ESTIMATES & FORECASTS
SOURCE: BNP PARIBAS ECONOMIC RESEARCH

COPPER SECTOR SUPPORTED BY SOARING PRICES

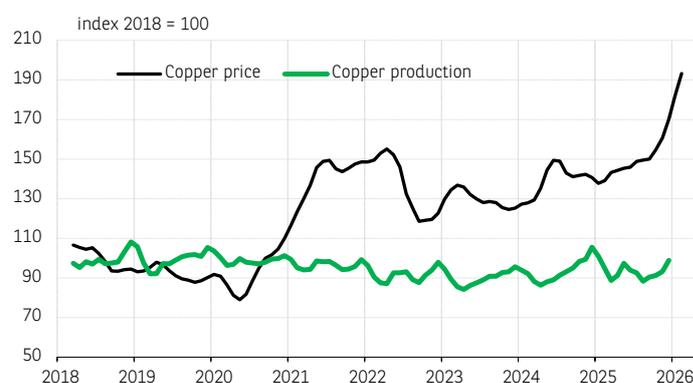


CHART 1

SOURCE: NATIONAL STATISTICS INSTITUTE, COCHILCO, BNP PARIBAS

ver, significant structural challenges persist. The recovery in copper production will be weak again this year. The national copper company CODELCO forecasts production of 5.6 million metric tonnes, representing an increase of just 0.8% in 2026 due to ongoing delays following maintenance operations at several sites.

While investment in the mining sector remains strong, it is largely focused on replacement and maintenance rather than expanding production capacity and innovation. However, the entry into force of the outgoing government's latest reform, which simplifies the licensing system, should help attract new investment and improve the business



climate. New projects identified in the mining sector (mainly copper and lithium) could also stimulate construction and transportation.

In a study published last January, CODELCO announced that the expected peak in production (set at 6mt) would not be achieved until 2034 (previously 2027). The growth trajectory of production is being hampered by structural constraints: the gradual deterioration of ore grades, which complicates extraction, and the ageing of large historical deposits are contributing to a rising trend in associated production costs. In addition, difficulty in accessing water and increasingly frequent periods of prolonged drought are complicating water management, which is essential for mining activities.

DISINFLATION PERSISTS, ALBEIT WITH GREATER DIFFICULTY

Disinflation resumed in mid-2025 after a hiatus of several months caused by sharp rises in electricity prices. In January, inflation stood at 2.8% year-on-year and is expected to remain below the central bank's 3% target for most of the year, thanks to favourable base effects and exchange rates, and a projected decline in fuel prices. However, core inflation is expected to hover slightly above 3% in the first half of the year, due to higher labour costs stemming from recent labour market reforms, which include a reduction in weekly working hours and reform of the pension system. These measures are likely to continue to put pressure on inflation in labour-intensive service sectors. Following a 25bp reduction at the December meeting, the key interest rate remained unchanged at 4.5% during the last meeting at the end of January. According to the press release, a further rate cut cannot be ruled out, but the council wants to wait until the disinflation process is confirmed as sustainable.

PUBLIC FINANCES: GRADUAL CONSOLIDATION

Over the past two years, the fiscal deficit has exceeded the 2% of GDP target set in the medium-term fiscal rule. The 2026 budget, which was presented last September by the outgoing government, included consolidation measures and a target of reducing the fiscal deficit to 1.5% of GDP. The new government's stated objective is to further reduce public spending by around 1.5pp of GDP over the next 18 months, with the intention of lowering the corporate tax rate to 23% by 2029 (currently 27%). This commitment seems optimistic, but if the spending adjustment is successfully implemented, the deficit could indeed be reduced to 2% of GDP.

Upon taking office, the government will have 90 days to establish a medium-term fiscal framework, publish a decree setting out the structural balance trajectory for the duration of its term of office, and define a macroprudential debt limit.

That said, despite deficits exceeding the targets set for 2023-2025, public debt has remained under the 45% of GDP threshold, and the sovereign risk premium remains very low in Chile (the 5-year CDS spread is only 43 bp). Public debt is expected to decline slightly in 2026 (to 42.8% of GDP, following 43% in 2025).

AI: INSTITUTIONAL RATHER THAN INDUSTRIAL LEADER

Chile is a leader in the region when it comes to AI adoption. Since the beginning of 2021, the government has announced several major development initiatives, resulting in increased infrastructure, training, and incentives to attract investment in the sector. According to ECLAC data, while per capita spending remains low on a global scale, it is higher in Chile (USD 8 per capita) compared to other countries in the region (USD 4 on average).

INVESTMENT IS SOLID

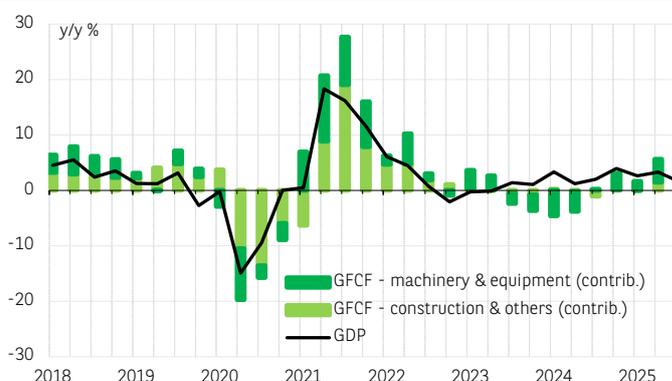


CHART 2

SOURCE: CENTRAL BANK, BNP PARIBAS

In February 2026, Chile announced the introduction of Latam-GPT, the first open-source language model designed for Latin America, with the aim of creating AI development capabilities specific to the region (particularly in terms of linguistic specificity).

The direct economic effects of these policies are still limited. Chile's share of trade directly attributable to AI is minimal, and the number of data centres is still low (59 at the end of 2025, compared to 173 in Mexico and 197 in Brazil). Furthermore, according to ECLAC estimates, the region attracts only around 1% of global investment in AI, despite accounting for nearly 7% of global GDP.

Nonetheless, Chile enjoys a major benefit from its copper and lithium resources, which are essential for energy storage in lithium-ion batteries, which are needed for electrical infrastructure and data centres. Currently, Chile mainly exports minimally processed lithium, while the industrial added value is captured by industries in Asian countries. The medium- and long-term challenges will be to reconcile moving up the value chain (by developing local battery industries) and maintaining an innovative position in the region, all while addressing environmental and social constraints.

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