banco central Chile
CIEN años

MONETARY POLICY MEETING

DECEMBER 2025

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Monetary policy meeting No. 318, held on 16 December 2025.

Present: Rosanna Costa, Governor; Stepanka Novy, Vice-Governor; Alberto Naudon, Board member; Luis Felipe Céspedes, Board member; Claudio Soto, Board member.

Present the Finance Minister, Nicolas Grau.

Also present: Luis Óscar Herrera, General Manager; Juan Pablo Araya, Legal Counsel and Attestor; Elías Albagli, Monetary Policy Division Director; Ricardo Consiglio, Financial Markets Division Director; Mauricio Calani, acting Financial Policy Division Director; Gloria Peña, Statistics and Data Division Director; Michel Moure, Institutional Affairs Division Director; Markus Kirchner, Macroeconomic Analysis Manager; Enrique Orellana, Monetary Policy Strategy and Communication Manager; Sofía Bauducco, Economic Research Manager; Guillermo Carlomagno, International Analysis Manager; Rodrigo Wagner, Advisor to the Finance Minister; Marlys Pabst, la Secretary General.

1. Background

For this meeting, the background information came from the December Monetary Policy Report (IPoM). In it, it was noted that cumulative inflation of the past four months had been lower than forecast in the previous IPoM, influenced by more favorable behavior of some cost factors. The difference was concentrated on goods, with services showing no significant differences.

Overall, economic activity had performed as expected, with more dynamic investment, especially in machinery and equipment. In the third quarter, this component had again outperformed forecasts, and capital goods import figures for October and November confirmed their sustained dynamism. Private consumption had evolved as expected, with improvements in some fundamentals. In line with projections, its quarterly growth rate had moderated relative to previous quarters.

Externally, global economies had proven more resilient than expected. Activity in the United States stood out, with growth exceeding forecasts in the third quarter. In the Eurozone, there were also positive surprises in activity, partly due to increased defense spending in several economies. The rise of new technologies and expectations about their impact on productivity boosted global performance, with noticeable effects in the real and financial sectors, mainly in the United States.

The improved external outlook was also reflected in the terms of trade. The copper price had exceeded US$5 per pound in the Londos Metal Exchange driven by supply bottlenecks and stronger demand linked to AI investments, the energy transition, and defense spending. Oil prices had declined amid expectations of greater supply. Financial conditions were also improving. Compared to the previous IPoM, there had been widespread gains in the stock markets and mixed movements in interest rates. The Federal Reserve had lowered its benchmark rate, and the market expected further cuts through 2026. Several Latin American currencies had appreciated, the Chilean peso being no exception.

Thus, compared to our previous report, the boost from abroad to the Chilean economy would be somewhat stronger, with a slight increase in our trading partners' growth and an improvement in the terms of trade. In any case, the external scenario continued to pose elevated risks.

As for projections, the central scenario was somewhat more favorable than in the previous IPoM, in a context where projected growth had been rising steadily throughout 2025—especially in the non-mining sectors—as the global outlook had been resilient and local investment more dynamic than expected. The outlook for the latter had improved again, driven by a more favorable evolution of its fundamentals. Private consumption forecasts had seen limited adjustments.

Headline inflation would stand around 3% in the first quarter of 2026—the CPI without volatile items would hit the mark towards the middle of the year—and would remain close for the rest of the monetary policy horizon. Among several factors, this projection factored in an appreciation of the real exchange rate; a reduction in electricity rates in early 2026; and limited inflationary pressures coming from the demand side.

2. Background analysis and discussion

The debate touched on the factors that contributed to a faster convergence of inflation to 3% and the evolution of inflationary risks. A considerable part of the difference between actual and projected inflation originated in the prices of goods. On the one hand, driven by the appreciated peso; on the other, there were more exploratory factors, such as the possible impact of trade diversion on the prices of imported goods and signs of higher in productivity. It was noted that in recent years, goods inflation had been more volatile, as documented in a box in the Report, and therefore short-term movements in this part of the CPI needed to be carefully monitored.

It was noted that risks had eased, but close attention was still necessary. Over the short term, the appreciation of the peso was gaining importance—as it should continue to pass through to prices—, the slower pace of labor costs, and the fact that private consumption had slowed its expansion in line with expectations.

For the medium term, there were elements that required careful analysis. With respect to September, the central scenario showed small revisions to activity and demand; however, these were added to those in previous reports, so that spending, in particular, had expanded more than had been considered at the beginning of the year. Its effects on inflation had been mitigated because it had been concentrated on investment in tradables. However, as reflected in the upper part of the Monetary Policy Rate (MPR) corridor, a scenario where this increased activity would drive greater dynamism in non-tradable spending and create greater inflationary pressures could not be ruled out.

In any case, there were factors that could help mitigate this risk. Although the labor market was showing signs of improvement, it continued to face significant challenges that could rein in spending and labor cost pressures. In addition, there were the aforementioned signs of higher productivity, which could also mitigate these pressures. If confirmed, this could change the potential GDP and activity gap evaluation; however, more information was needed before this hypothesis could be validated.

The discussion also covered the risks associated with the evolution of the global scenario. Despite the improvements reflected in the IPoM, some factors persisted that could alter this view. Among them, the risk of overestimating the value of AI-related companies and the potential impact of a price correction on the financial wealth of households and firms. The effects of the commercial conflict seemed to have been lower than expected, but it couldn't be ruled out that other countries could start new tariff rounds given the effects of trade diversion. Some of this was observed in the new tariffs that Mexico had imposed on China.

3. Analysis of monetary policy options

All the Board members stressed that the evolution of the economy and the projections in the December IPoM's central scenario indicated that inflation would converge to the 3% target in the first quarter of 2026. This for a long time. This would occur in a context where inflation had declined faster than anticipated in September, some cost-related factors exhibited a more favorable behavior, and the risks to inflation convergence had diminished.

All the Board members also noted that the evolution of the macroeconomic scenario confirmed the appropriateness of the strategy adopted in response to the temporary upturn of core inflation observed in mid-year, which had provided room to adequately assess inflationary risks. They added that these risks had diminished, so it was appropriate to continue bringing the MPR closer to its neutral range. In that context, the clearly dominant option was to lower the MPR by 25 basis points (bp).

Several Board members noted that there were arguments for considering alternatives other than a 25bp cut, although these were quickly dismissed. One member raised the possibility of a 50bp reduction, given that the activity gap was closed and inflation was near the target, suggesting that the policy rate could be at the center of the estimated neutral range, at 4.25%. Meanwhile, some members stressed the importance of avoiding any perception that the inflation problem was fully resolved or that risks had disappeared, which also warranted assessing the option of keeping the policy rate at 4.75%

4. Monetary policy decision

Governor Costa, Vice-Governor Novy and Board members Naudon, Céspedes and Soto voted in favor of lowering the monetary policy rate by 25 basis points, to 4.5%.