Monetary Policy Report

Presentation before the Finance Commission of the Honorable Senate of the Republic*

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* The December 2025 Monetary Policy Report can be visited at http://www.bcentral.cl

Introduction

Madam President of the Finance Comision of the Senate, senators members of this Commission,

As always, I would like to begin by thanking the Commission for regularly inviting the Central Bank to present our view on recent macroeconomic developments, as well as their outlook and implications for monetary policy.

This presentation of our Monetary Policy Report (IPoM) comes during the Bank's centennial, a year marked by a series of activities designed to share this commemoration with the public. The Bank's work is undoubtedly very important for the people's well-being, a task that is sometimes difficult to grasp. Hence, we sought to connect what this institution is about and share this commemoration with everyone, as it is a significant event for our country.

During this year, we made a significant part of our pictorial and numismatic collections available to the public, giving shape to the exhibition *Reflejos de Chile* (Reflections of Chile), which welcomed more than 56,000 visitors to the La Moneda Cultural Center. We reinforced the role that the Central Bank has been playing for more than 20 years in financial education, co-organizing with the Chilean higher education institution Inacap the National Olympics in which 4,000 students and teachers throughout the country participated. We invited people to share everyday stories that testified, in 100 words, to their connection with different means of payment, receiving more than 5,000 stories on the "Historias de Peso" platform. We also minted a special edition of the C$100 coin, which today travels around the country from hand to hand, as further testimony to the Bank's presence in our economy.

In turn, this year's end is also marked by the IPoM showing that inflation has fallen faster than predicted in the previous issue, which is occurring in a global and local economic environment that is somewhat better than expected.

In addition, in the central projection scenario that I will present to you in minutes, we anticipate that inflation will reach the 3% target by the first quarter of 2026.

This forecast considers a more favorable behavior of certain cost factors, including the recent appreciation of the peso and a slowdown of the high wage growth seen in previous quarters. All of this in a context where the inflationary risks we identified in our previous report have diminished.

Local activity has been broadly in line with expectations. Non-mining GDP has seen no significant differences with our forecasts, while total GDP has been somewhat lower due to poor performance in the mining sector. On the expenditure side, we are again seeing more dynamic investment than expected, especially in its machinery & equipment component.

On the external front, the boost from abroad to our economy will be somewhat greater than anticipated in the previous IPoMs. Global activity has been resilient to the uncertainty shocks earlier in the year, and financial conditions have improved. The terms of trade are also more favorable, with copper trading above US$5 per pound and its price forecast being revised upward for the next two years.

In any case, beyond this more favorable outlook, global risks remain significant. As we stated in the Financial Stability Report we presented to this Committee just over a month ago, there are situations that we must continue to monitor carefully, including the deteriorating fiscal position of several developed countries and an adjustment in the value of assets, among them those linked to artificial intelligence (AI).

Let me now describe the contents of the Report, which form the basis for the monetary policy decision and outlook that we communicated following our Monetary Policy Meeting yesterday.

The macroeconomic scenario

As I just said, inflation declined from the levels observed at the time of the September IPoM and is headed to reaching the 3% target in the coming months.

Cumulative inflation over the last four months was lower than forecast in the previous IPoM. The difference was concentrated in goods prices, which were affected by the appreciation of the peso—more than 4% since the previous IPoM—and the effect that trade diversions would have had on the prices of some imported products. The atypical behavior of some food prices also had an impact. No significant differences were observed in services. As a result, in November, the annual variation in total and core CPI was 3.4%, both figures lower than those recorded in August (Figure 1).

This behavior of inflation has been seen in a context in which inflation persistence has not deviated from its usual patterns and some cost factors have evolved more favorably. Labor cost growth has slowed, although in nominal terms it remains above its historical averages. At the same time, shorter-term inflation expectations have declined, while for two years ahead they remain in line with the target (Figure 2).

Regarding the local economy, its overall performance has been in line with forecasts, with domestic demand being boosted by dynamic investment. In the third quarter, non-mining GDP growth matched projections, with the evolution of services standing out, followed by trade. In contrast, total GDP was lower than expected, drawn by the poor result of the mining sector, which was affected by a drop in production at some sites and lower ore grades. Measured in annual terms, total GDP grew 1.6% in the third quarter, with mining activity falling 6.5% and activity in the other sectors rising 2.6% (Figure 3).

Turning to the components of domestic expenditure, gross fixed capital formation (GFCF) performed particularly well, especially for machinery & equipment. In the third quarter, this component exceeded expectations again, and capital goods import figures for October and November confirm that this momentum has been maintained. Investment in construction & public works, meanwhile, continues to lag behind.

Private consumption has evolved in line with forecasts, with improvements observed in some of its fundamentals. As expected, its quarterly growth rate moderated from previous quarters (Figure 4). Among its fundamentals, consumer expectations have increased. In turn, the labor market shows improvements, although significant challenges remain. The unemployment rate has fallen since the September IPoM, but remains above historical averages, while job creation is still slow.

The global economy has shown greater resilience than expected (Figure 5). In the United States, third-quarter growth exceeded expectations, although the labor market continues to weaken. In the Eurozone, there were also positive surprises in activity, partly associated with increased defense spending in several economies. Latin America performed favorably, while in China the figures remained aligned with the growth target set by its authorities.

The rise of new technologies and expectations about their impact on productivity have boosted global performance, with visible effects on the real and financial sectors, especially in the United States.

Investments in this area have become an important driver of the economy, contributing more than a third of annual GDP growth in the second quarter of 2025. In turn, stock market gains in the United States have been led by the stocks of AI-related companies (Figure 6).

Meanwhile, the terms of trade have improved in recent months. The copper price exceeded US$5 per pound, driven by supply constraints and greater demand linked to investment in artificial intelligence, the energy transition, and defense spending. Oil prices have fallen amid prospects of increased supply, although the prices of refined products, such as gasoline, have not fallen as much as anticipated due to one-off distortions in certain markets (Figure 7).

In this context, compared to September, there have been widespread increases in stock prices and mixed movements in interest rates. The Federal Reserve has again lowered its benchmark rate and further cuts are expected throughout 2026. Moreover, several Latin American currencies have appreciated, including the Chilean peso (Figure 8).

Thus, external momentum for the Chilean economy is somewhat stronger, with a slight increase in the projected growth of our trading partners and an improvement in terms of trade. The former is revised from 2.6% to 2.8% on average for 2025-2026. For the latter, the copper price is revised upward across the entire projection horizon, along with a moderate decline in our estimates for oil. (Figure 9).

In any case, it is important to reiterate that, although we see a somewhat more favorable outlook than a few months ago, global risks remain high. Geopolitical tensions persist, despite some ease. War tensions remain, and developed economies—particularly in Europe—are increasing their defense spending, which could erode their fiscal position. Added to this are doubts surrounding the valuation of global asset prices.

Forecasts

Turning to forecasts, the central scenario of this IPoM looks a little more favorable when compared with the September report.

Thus, we estimate that GDP will grow by 2.4% in 2025, standing in the middle of the range projected in September, that is, between 2.25% and 2.75%. For 2026, the range is revised to 2.0-3.0%, 25 basis points higher than the September range. For 2027, the range remains between 1.5% and 2.5%, in line with our economy's trend growth.

It is important to note that growth forecasts have been steadily rising throughout 2025—especially for the non-mining sectors—as the global outlook has remained resilient and local investment has been more dynamic than expected, particularly in the mining and energy industries (Figure 10).

As for investment, which, as I pointed out, has been the most dynamic component of domestic spending, its outlook is improved again, driven by more favorable fundamentals. As I mentioned, the copper price projection is raised—which also determines the reduction in the current account deficit for 2026—and financial conditions and business expectations have improved relative to previous years. In addition, investment momentum is expected to become more cross-cutting across sectors over the projection horizon (Figure 11).

Projected growth in private consumption shows limited upward adjustments, with it expected to continue approaching rates consistent with trend GDP. Household spending will be sustained by increases in consumer confidence and wage bill growth (Figure 12).

Regarding fiscal spending, for 2026 the central scenario considers growth in line with the Budget Law. For 2027, we consider the expenditures contained in the Public Finance Report for the third quarter of 2025.

For inflation, we foresee the annual variation in total CPI standing at 3% in the first quarter of 2026, while the CPI without volatile items would reach 3% by mid-year. In both cases, after reaching the target, their annual variation will remain around that value through the rest of the monetary policy horizon (Figure 13).

This projection considers an appreciation of the real exchange rate, which starts from a lower level due to its recent performance, consistent with the evolution of its fundamentals. It also includes, among other factors, a reduction in electric utility prices in early 2026, in line with the revisions reported by the authority. These elements are offset by limited inflationary pressures on the demand side, given that most investment is concentrated in tradables and some indicators suggest an increase in productivity.

Monetary policy

In our monetary policy meeting yesterday, Tuesday, we lowered by MPR by 25 basis points, to 4.5%. As for future interest rate movements, in the Statement following the meeting, we indicated that these will take into account the evolution of the macroeconomic scenario and its implications for inflation's convergence. This, while keeping in mind our commitment to conduct monetary policy with flexibility, to ensure that projected inflation stands at 3% over a two-year horizon.

In this IPoM, we revisit the neutral monetary policy rate (NMPR). We update this estimate periodically, as it serves as a benchmark for assessing the degree of stimulus or restraint that monetary policy is providing to the economy.

When the monetary policy rate is around the level set by the NMPR, it is considered to be neither expansionary nor contractionary, that is, neutral from the point of view of the stimulus it provides to the economy.

The neutral MPR is an unobservable variable, so its value must be proxied using different methodologies. These methodologies are constantly being updated, and on this occasion they yield values that are somewhat higher than those we considered in the last review, in 2023. Thus, we estimate that the neutral MPR is in the range of 3.75% to 4.75%, or 25 basis points above our previous estimate. For the purposes of the projection scenarios, we must use a methodological assumption that is equivalent to the midpoint of the range: 4.25%.

The MPR corridor and sensitivity scenarios

As usual, the IPoM contains the MPR corridor, which encompasses scenarios alternative to our central one, where monetary policy behaves differently.

I want to stress that neither the central scenario nor this corridor entails any commitment by the Board regarding the future path of the MPR. Their purpose is to provide more detailed information on possible paths. As I just mentioned, it will be macroeconomic developments and the outlook for inflation that will determine the course of the Board's decisions.

In this IPoM, the limits of the MPR corridor are defined by sensitivity scenarios similar to those back in September. The upper bound is associated with more dynamic domestic demand. This could occur in a scenario where stronger momentum in the local economy boosts expectations and spending by households and firms, supported also by an environment where financial conditions have improved, labor costs are growing above their historical averages, and the copper price has risen. Such a scenario would lead to greater inflationary pressures and the MPR exceeding that in the central scenario.

The lower bound of the corridor reflects a scenario in which global financial conditions deteriorate and negatively affect the local economy. This could occur, for example, if there is a correction in the prices of tech companies' assets that affect external financing conditions, global activity, and commodity prices, especially copper. In these conditions, domestic demand would weaken, reducing inflationary pressures and calling for a more expansionary monetary policy (Figure 14).

As for risk scenarios, we believe that they remain strongly linked to a reversal in global financial conditions. Situations such as this could be triggered by various factors. For example, a less optimistic view about the impact of new technologies on business productivity could reduce risk appetite. It could also occur in the event of less favorable developments in current geopolitical tensions. One case would be an escalation of the trade war or armed conflicts, as well as a sharper deterioration in the fiscal or institutional situation in the major economies.

Concern about these developments is shared by central banks, academia, and experts. During our Annual Conference last November, there was a rich discussion of these and other issues. For example, among the challenges discussed, a central theme that emerged was the high degree of uncertainty surrounding fiscal, regulatory, and trade policy decisions at the global level, with a consequent discussion of how they affect the economies and how central banks should respond. Although this uncertainty has not resulted in particularly critical episodes, it has led to greater market volatility and the need for central banks to be prepared to react quickly and decisively if conditions so warrant.

It was also pointed out that this context of uncertainty is occurring amid a process of technological change that will affect our lives in many ways, including how we produce, how we work, and how we trade. There will be new opportunities, but also new challenges.

As a corollary, the discussion reinforced three key elements: (i) the inflation targeting framework has been successfully tested, and effective communication has become an important pillar; (ii) the need to prepare, from a regulatory standpoint, for new global means of payment, such as stablecoins; and (iii) the importance of central bank autonomy, technical capacity, credibility, and the ability to respond in a timely manner in a more uncertain global environment.

Final thoughts

Dear senators, I would like to conclude this presentation with a few brief reflections. The year that is coming to an end has been marked by significant changes in the global economy. The analysis and outlook presented in this IPoM reflect a scenario of greater-than-expected global resilience, shaping a somewhat more encouraging external outlook. This contrasts with what seemed more likely a few months ago, when everything pointed to growing geopolitical tensions having a more adverse impact on the world economies. However, it is necessary to reiterate that risks remain and we must continue to closely monitor events as they unfold.

At home, we also closed 2025 with a more favorable performance than we estimated at the beginning of the year. Compared to September, the changes in growth projections are limited. However, they add to previous increases, hand in hand with private consumption, which has maintained an adequate pace of expansion, and investment, which has performed better than expected. In any case, it continues to be mainly concentrated in energy and mining projects, where long-term factors have greater weight in investment decisions.

A key factor to emphasize for the local economic outlook is that inflation is approaching 3%. According to our central scenario, the annual variation in total CPI will reach the target in the next quarter, while core inflation will do so a little later, towards the middle of the year.

The period in which inflation has been above 3% has been long and challenging for the Central Bank. It has certainly also been challenging for families and businesses, which had to cope with inflation that at one point was as high as 14%.

To briefly recap this period, the inflationary episode of 2022-2023 was brought under control in early 2024, with inflation standing at 3.2% annually in the first quarter of last year. However, this level of inflation failed to stabilize, as we were hit by a new shock: the unfreezing of electricity rates that began in July 2024.

This was a very different shock, and accordingly, the monetary policy response was different. Instead of fighting it, as we had done before, we accommodated it with a monetary policy trajectory similar to the one previously considered. In any case, the consequence was that annual inflation rose again and we had a new period in which it stood above 3%.

Today, with inflation now closing in on 3% again, we recognize that controlling inflation has been no easy task, but we can proudly say that the Central Bank is achieving this with limited costs to the economy, reaffirming the value of its policy framework and its role in society.

By safeguarding economic stability and controlling inflation, we are protecting people, especially the most vulnerable, for whom the scourge of inflation has a direct impact on their quality of life. Maintaining low and stable inflation is not only what defines our monetary policy actions; it is at the heart of our contribution to the well-being of all our citizens.

That said, the task is ongoing. Inflation at 3% is still a projection, and the task will not be complete even once that happens. We must preserve and strengthen a credible and consistent policy framework with Central Bank autonomy, capable of adapting to an environment that we recognize as more volatile and complex. This requires acting with caution, while maintaining a sound, balanced economy that continues to build on its strengths.

Our role as a stabilizer of the business cycle challenges us to maintain a forward-looking perspective that incorporates both the most likely scenario and the associated risks. It will be essential to continue developing tools for accurate real-time analysis that enable us to correctly identify the nature of shocks hitting our economy and to develop the appropriate tools to mitigate them. Our duty is to preserve and strengthen a credible policy framework, consistent with the autonomy of the Central Bank, capable of adapting to and facing unfamiliar episodes.

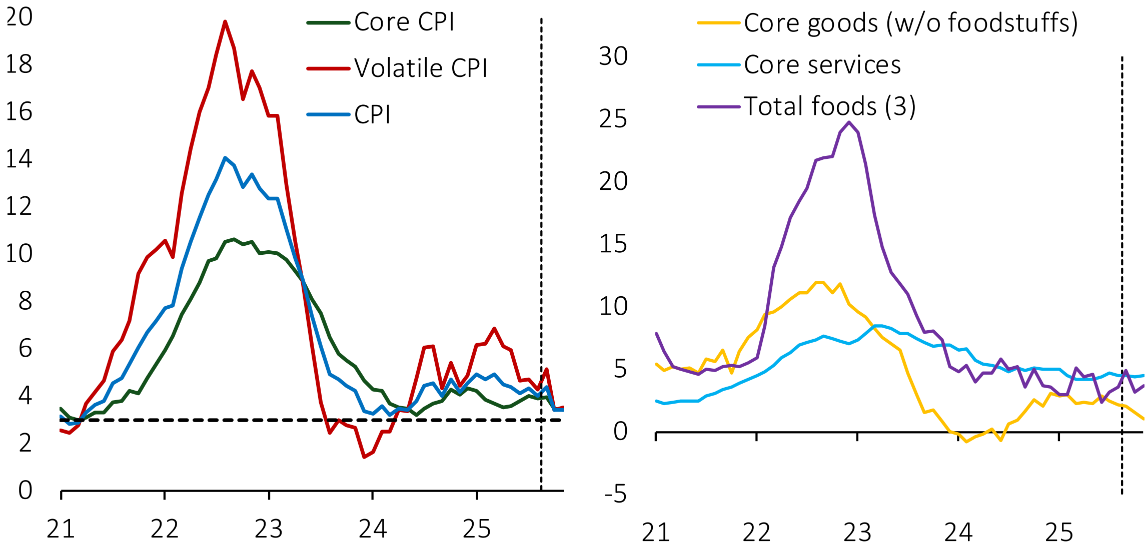
Dear senators, as I conclude this presentation, I would like to express the gratitude of the Central Bank Board to this Commission and the senators who have served on it over the past four years and who will be leaving their posts next March. To its current members, Senator Rincón, Senator Lagos Weber, Senator Galilea, and Senator Insulza. Also to senators García Ruminot, Coloma, Kast, and Prohens, who, as former members of the Commission, participated in various instances in which the Bank presented its Monetary Policy and Financial Stability Reports. We appreciate and thank them for their willingness to listen to the Bank, and we have tried to respond to the concerns that may have arisen in each case. Their contribution has been fundamental in building bridges that facilitate better communication with the country, allowing citizens to understand the Bank's work and the relevance of its mission. We wish you and them all every success in what lies ahead.

Thank you.

Figure 1

Inflation indicators (1) (2)
(annual change, percent)

Core inflation and foods inflation (1) (2)
(annual change, percent)



(1) Prior to 2025, the total inflation series considers the 2023 benchmark basket and the splicing made by the Central Bank of Chile. (2) Dashed vertical line marks statistical close of the September 2025 IPoM. (3) Considers the sum of volatile and non-volatile food items.

Sources: Central Bank of Chile and National Statistics Institute.

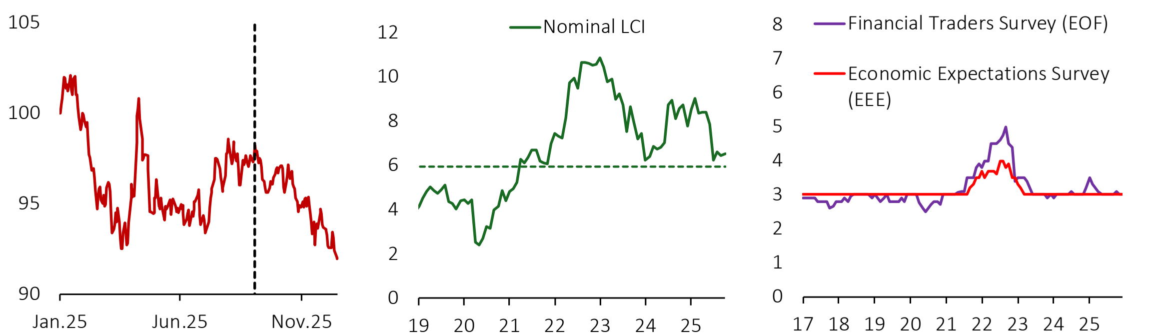
Figure 2

Cost factors

Nominal exchange rate (1)
(index, 01.Jan.25=100)

Labor cost index (LCI) (2)
(annual change, percent)

Inflation expectations two years ahead (3) (4)
(annual change, percent)



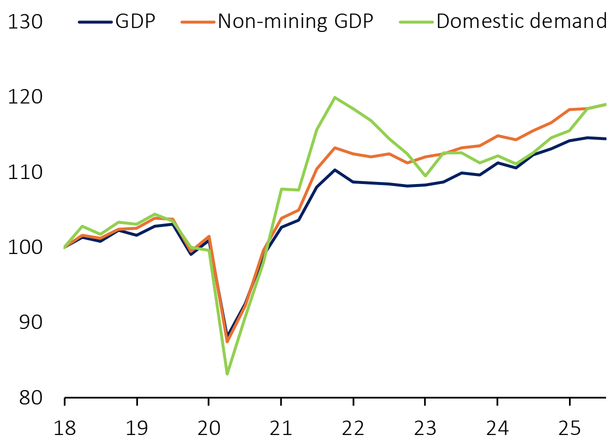
(1) Dashed vertical line marks statistical close of September 2025 IPoM. (2) Dashed horizontal line shows the average between 2010 and 2019. (3) The figure shows the medians of the responses. (4) The EOF considers the survey from the first half of each month until January 2018. From February 2018 onwards, it considers the last survey published in the month. In months when the survey is not published, the last available survey is used.

Sources: Central Bank of Chile and National Statistics Institute (INE).

Figure 3

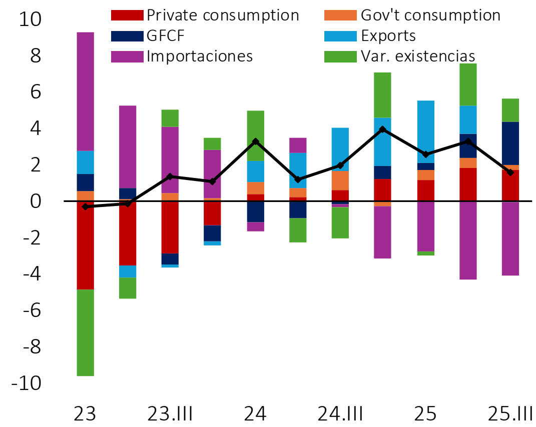
Activity and demand

(index, 1Q2018 =100, real deseasonalized series)



Demand GDP

(contributions to annual change, percentage points)

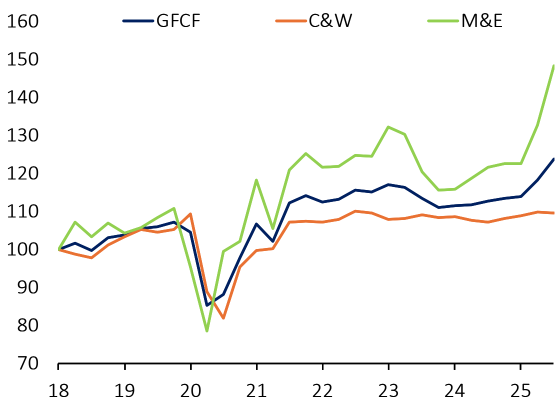


Source: Central Bank of Chile.

Figure 4

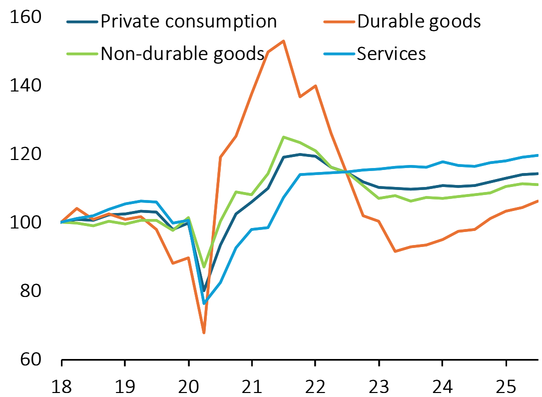
Gross fixed capital formation by components

(index, 1Q2018 =100, real deseasonalized series)



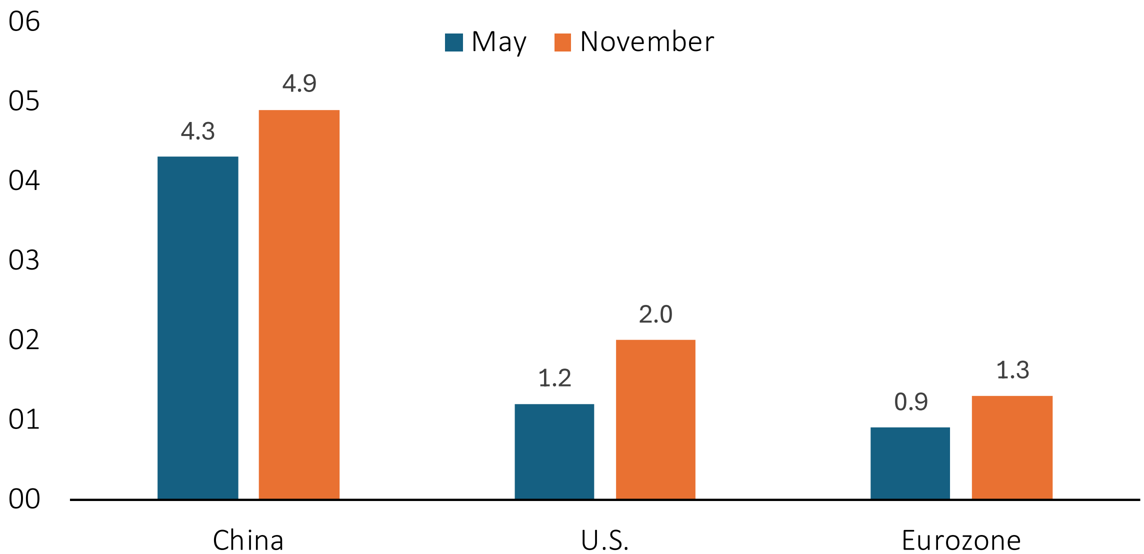
Private consumption by components

(index, 1Q2018 =100, real deseasonalized series)



Source: Central Bank of Chile.

Figure 5
Market forecasts of 2025 world growth
(percent)

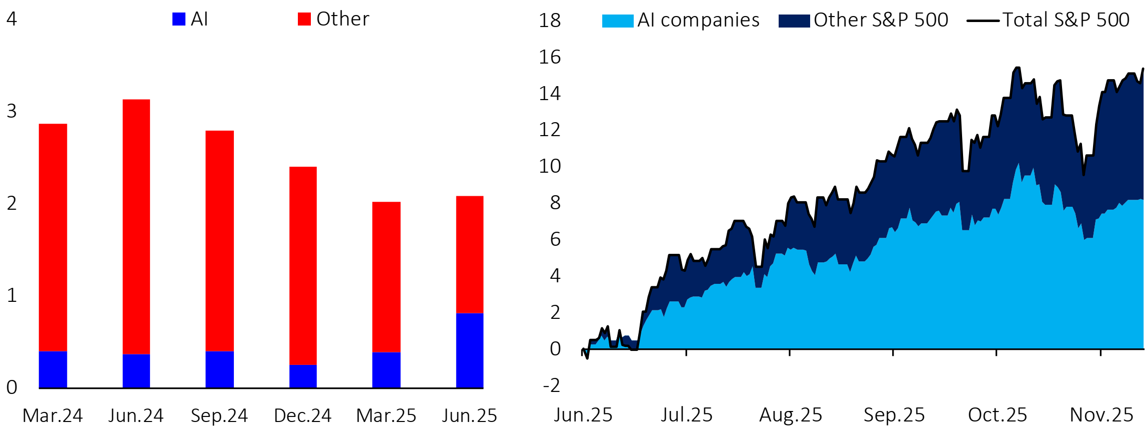


Source: Consensus Forecasts.

Figure 6

Contribution of AI to US GDP (1)
(contribution to annual change, percentage points)

Contribution to S&P 500 according to AI exposure (2)
(Cumulative percent change)



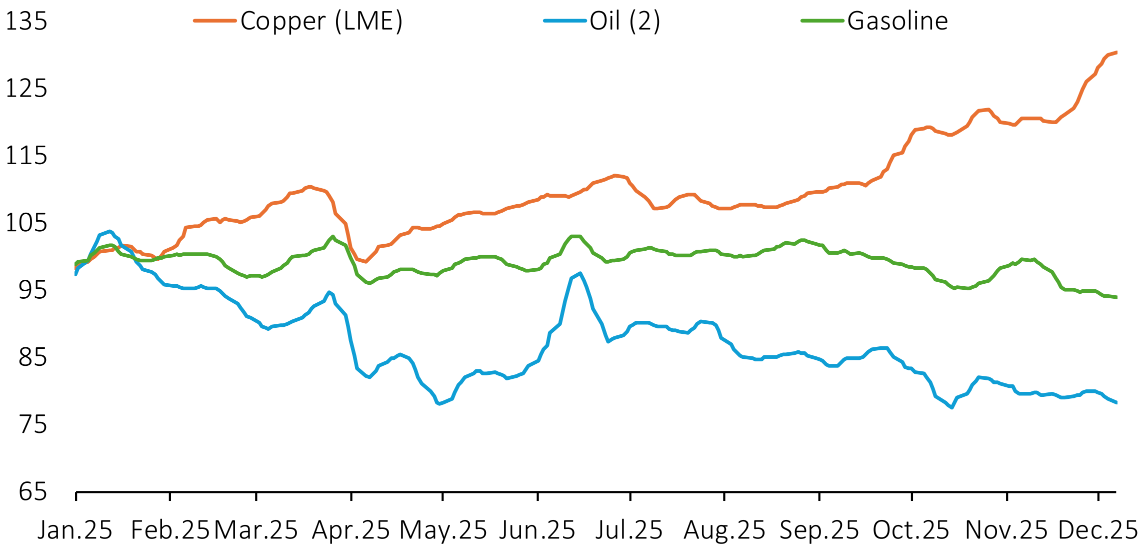
(1) AI includes investment in information processing equipment, software, R&D, data centers, energy infrastructure, and net exports of goods related to the above. For details, see the paper by Álvarez et al. (2025) cited in Box I.1, December 2025 IPoM. (2) Cumulative percent change from June 3 to December 10 . For details on the AI companies considered, see note to Figure I.20, December 2025 IPoM.

Sources: Central Bank of Chile and Bloomberg.

Figure 7

Commodity prices (1)

(index, 01.Jan.25=100)



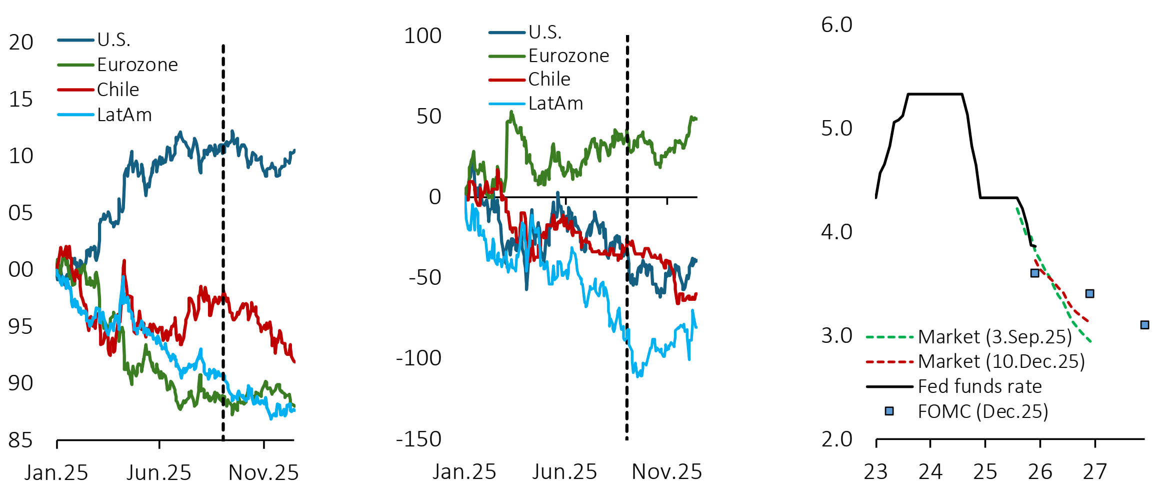
(1) Series in moving 7-day averages. (2) Average WTI - Brent barrel.
Source: Bloomberg.

Figure 8

Currencies (1) (2) (3)
(index, 01.Jan.25=100)

Nominal interest rates on)
10-year bonds (1) (2
(difference with respect to January 1st 2025, basis points)

Fed funds rate (4)
(percent)



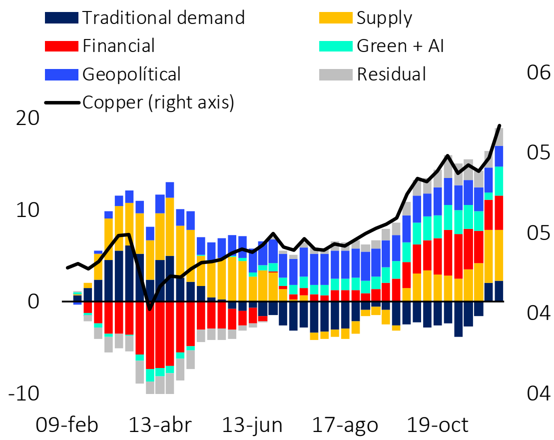
(1) Dashed vertical line marks statistical close of September 2025 IPoM. (2) For Latin America, it considers simple average of the indices for Brazil, Colombia, Mexico, and Peru. (3) An increase in the index corresponds to currency depreciation and vice versa. For the U.S., the multilateral exchange rate is used. (4) The FOMC forecasts refer to the median range of the Fed funds rate presented in December 2025; the market projections correspond to the median range of the Fed funds rate for futures on September 3 (statistical close of the month's IPoM) and December 10 (statistical close of this IPoM). For December 2025, the Fed funds rate uses the monthly average until the statistical close of this IPoM, incorporating the cut made by the FOMC in that month.

Sources: Central Bank of Chile, Bloomberg and US Federal Reserve.

Figure 9

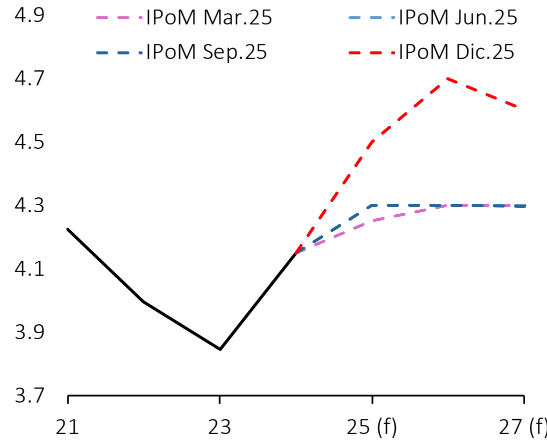
Copper price breakdown (LME) (1)

(cumulative percent; dollars per pound)



Copper price forecast (2)

(dollars per pound)

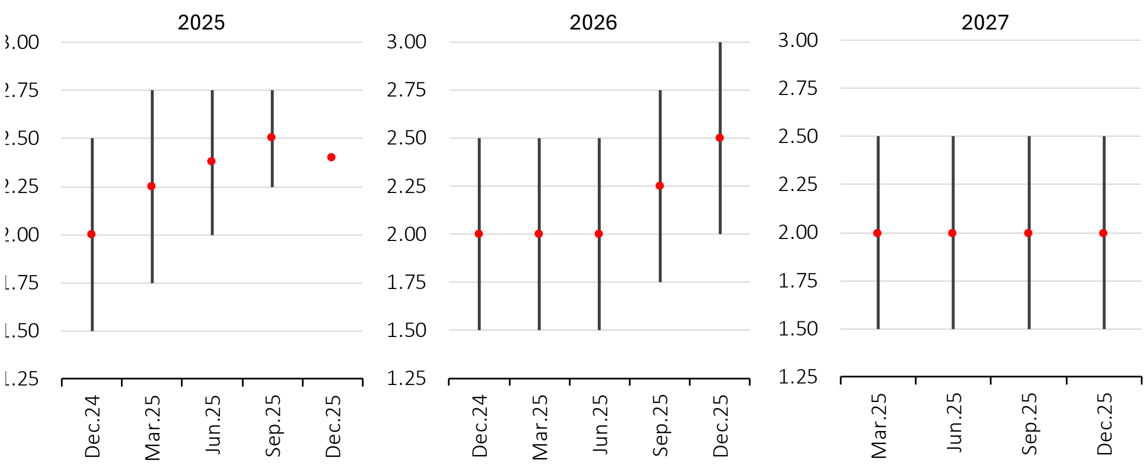


(1) For details, see Alvarez et al. (2025) minutes cited in Box II.1, IPoM December 2025. (2) Actual price refers to each year's average.
Sources: Central Bank of Chile and Bloomberg.

Figure 10

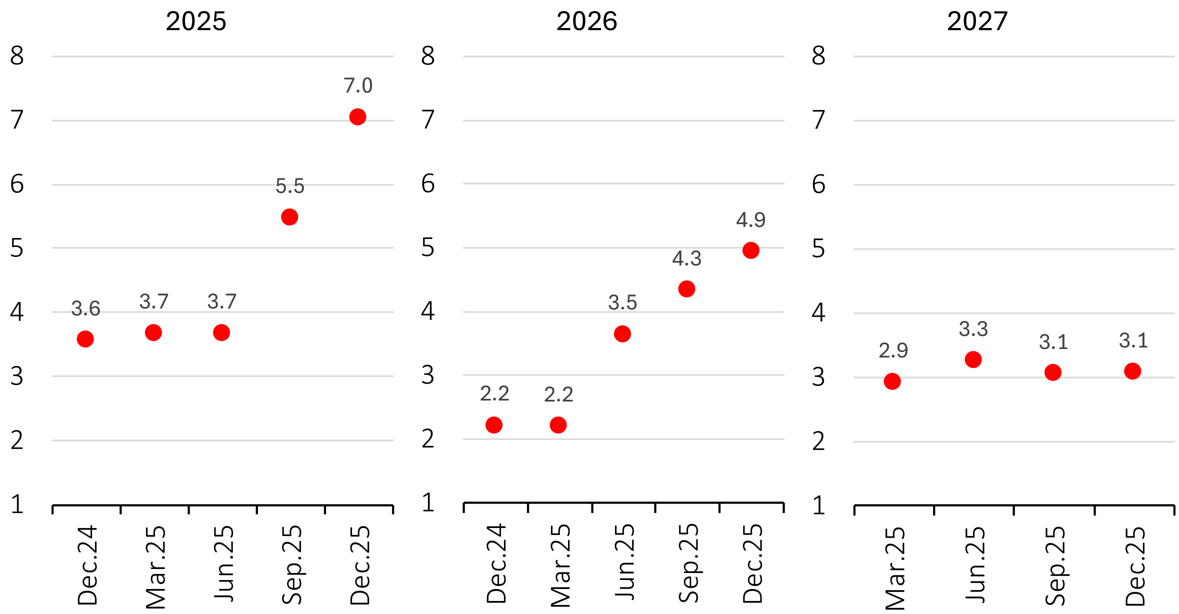
GDP growth forecasts (1)

(real annual change, percent)



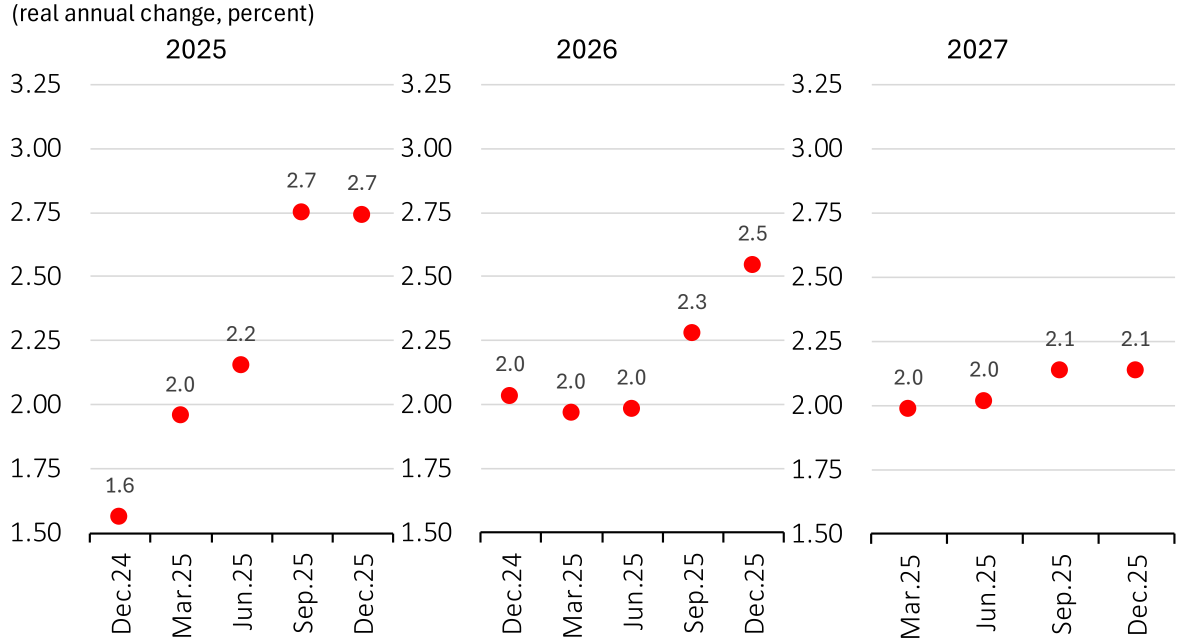
(1) Red dots indicate the midpoint of growth ranges, for the purpose of comparing between forecasts.
Source: Central Bank of Chile.

Figure 11
Gross fixed capital formation forecasts
(real annual change, percent)



Source: Central Bank of Chile.

Figure 12
Private consumption forecasts
(real annual change, percent)

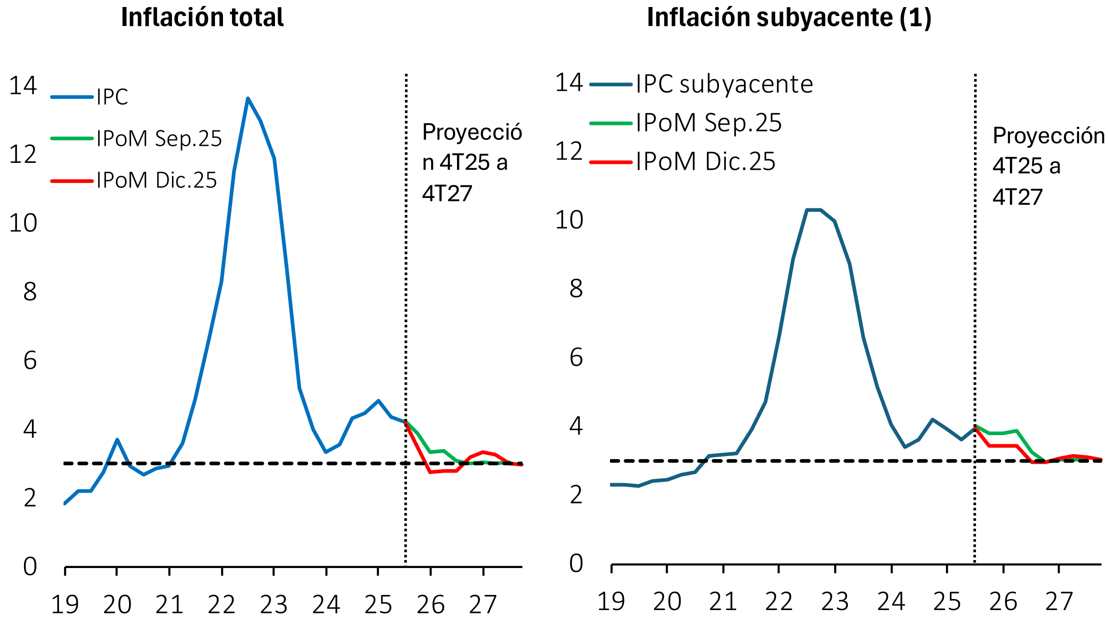


Source: Central Bank of Chile.

Figure 13

Proyección de inflación

(variación anual, porcentaje)



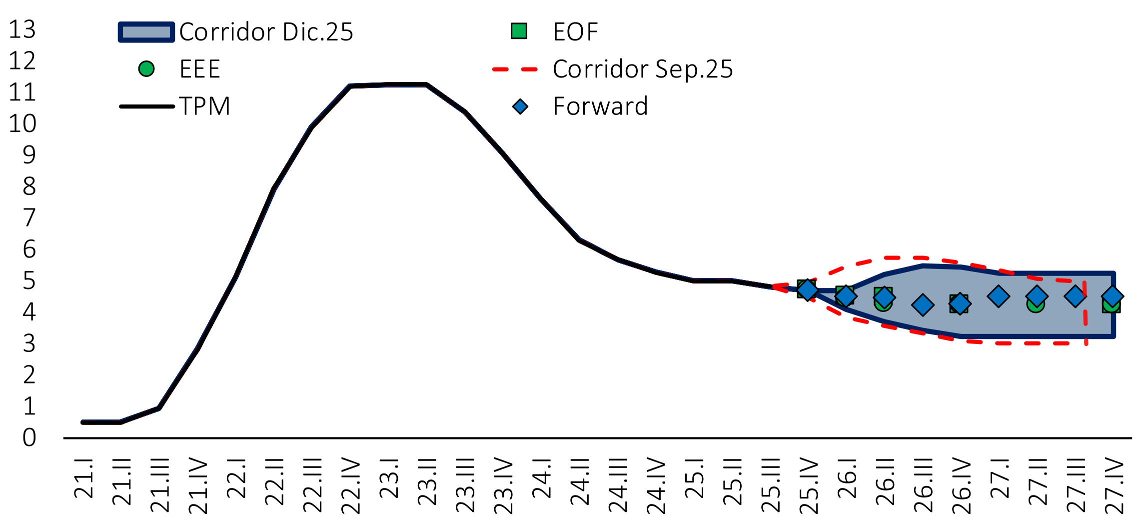
(1) Medida por el IPC sin volátiles

Fuentes: Banco Central de Chile e Instituto Nacional de Estadísticas.

Figure 14

Corredor de TPM (1)

(promedio trimestral, porcentaje)



(1) Para 2027, se considera un calendario similar al de 2026. El corredor se construye siguiendo la metodología del Recuadro V.1 del IPoM de marzo 2020 y el Recuadro V.3 del IPoM de marzo 2022. Incluye la EEE de diciembre, la EOF pre RPM de diciembre y la curva forward suavizada promedio del trimestre al 10 de diciembre. Para mayor detalle, ver nota metodológica del gráfico II.8, IPoM de diciembre 2025.

Fuente: Banco Central de Chile.