

Ida Wolden Bache: Remarks at the Central Bank of Chile

Opening remarks by Ms Ida Wolden Bache, Governor of Norges Bank (Central Bank of Norway), in the panel debate "Monetary policy challenges in times of economic policy uncertainty" at the conference "Monetary policy, financial markets, and challenges ahead: celebrating the centennial of the Central Bank of Chile", Santiago de Chile, 21 November 2025.

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Good afternoon and thank you very much for the invitation. It is a great pleasure to be here and to take part in the celebration of the centennial of Banco Central de Chile.

Although Chile and Norway are far apart geographically, they are similar in many ways. Both countries are long and narrow, and close to polar regions. We are major fishing nations, and our economies have been shaped by abundant natural resources: copper in Chile, oil and gas in Norway. Revenues from these resources have been channelled into sovereign wealth funds, helping us smooth commodity cycles. As fortunate as we may be in this respect, we are both small, open economies with relatively limited production bases, leaving us exposed to global shocks and international developments.

And in recent years, we have certainly felt the impact of many shocks. In these brief remarks, I will reflect on how these shocks, and the ongoing broader global shifts, are reshaping the environment for monetary policy. Then, I will turn to what this means for us as policymakers.

On the first question: In the decade or so prior to the Covid-19 pandemic, inflation was stubbornly low in many advanced economies. Policy rates hit zero or below, and instruments such as forward guidance and quantitative easing were used to compress long-term yields and risk premia. The prospect of rapidly rising prices seemed remote.

That assumption proved wrong. In 2022 and 2023, inflation in many countries surged to the highest level in several decades. In hindsight, it is clear that both our models and our judgment were shaped by the long period of low inflation. We underestimated how strongly the combination of pandemic-related supply shocks and expansionary policies would fuel inflation. In Norway, like in many other small, open economies, a weaker currency pushed imported inflation further up. Central banks around the world had to tighten policy rapidly – some, like in Chile and other countries in Latin America, moved earlier and more forcefully than others.

Looking ahead, one thing we can be sure of is that the world will continue to surprise us. Forces such as climate change, geopolitical tensions and rapid advances in artificial intelligence are all contributing to uncertainty. One conjecture is that these forces will result in larger and more frequent supply-side disturbances. For instance, a global trade war could act as a major negative supply shock, pushing up prices at several stages of the global value chain while also lowering growth. And climate change could lead to more frequent extreme weather events that may have similar macroeconomic effects.

Three points follow from this. First, monetary policy should maintain focus on keeping inflation low and stable. That does not mean a return to strict inflation targeting, as most

central bank mandates also give weight to employment and the real economy. But while flexible inflation targeting allows us to look through temporary price movements, repeatedly accommodating a sequence of negative supply shocks could push average inflation above target, with the risk that inflation expectations become unanchored. History shows that once confidence in price stability is lost, the cost of restoring it can be very high.

Second, we should be realistic about what monetary policy can and cannot achieve. Monetary policy affects the economy broadly; it cannot be used to support specific sectors or groups. Some policy objectives require more targeted measures. For instance, during the Covid-19 pandemic, targeted fiscal support helped the sectors and workers most exposed to shutdowns and weak demand. Another example is climate change. While both the physical effects of climate change and the transition to a low-carbon economy have implications for the economy, and hence for monetary policy, the policy rate is not an effective tool for supporting the transition to a low-carbon economy.

Third, we must recognise the importance of preserving public trust in our institutions. In an environment of heightened uncertainty it is even more important to clarify the reasoning behind our actions and how they are affected by new information. In Norway, we publish a policy rate forecast that is consistent with our forecasts of other variables. We also describe how new information has affected the rate forecast. Importantly, the rate path is not a promise, and indeed it has been adjusted substantially in recent years as the outlook has changed. We nevertheless believe that it remains a useful communication tool. Many central banks are now increasing the use of scenarios in their communication. Well-designed scenarios could help markets and the public understand how policymakers might respond to shocks that have not yet occurred.

Regular reviews of the monetary policy framework also provide an opportunity to take on board new insights and strengthen the democratic support for independent monetary policy. Earlier this year, the Norwegian government initiated a review of our monetary policy mandate. While I will not pre-empt any conclusions of the review, let me just say that a good mandate for monetary policy should be flexible enough to address different types of disturbances – not only those that have occurred in the recent past. But the mandate should also be sufficiently precise to enable others to hold us to account.

Let me conclude. Uncertainty is nothing new. Central banks have always had to adapt to shifting conditions. Transparency and a commitment to price stability remain the foundation for navigating the challenges ahead.