

## **Rosanna Costa: Centennial of the Central Bank of Chile - past, present, and the future**

Keynote speech by Ms Rosanna Costa, Governor of the Central Bank of Chile, at the XXVIII Annual Conference of the Central Bank of Chile "Monetary Policy, financial markets, and challenges ahead: celebrating the centennial of the Central Bank of Chile", Santiago de Chile, 20 November 2025.

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Good morning. Thank you for being here. This has been a very significant year for the Central Bank of Chile. Reaching 100 years is a major milestone. We have had a year full of activities, seeking to connect and share with the community, with people.

This Conference is the culminating point of this commemoration, connecting us with the knowledge that nourishes and strengthens our actions. We are so pleased to have all of you here.

Our centennial has also been a time for reflection about ourselves, our origins, and our future. Economic history begins with humanity. After all, economics is nothing more than the study of scarcity to meet ever-growing demands and the process of creating and adding value, which is intimately linked to the imperative of choosing when faced with the dilemmas that scarcity presents us in all its dimensions.

From autarky to barter, the great economic advances are social steps that naturally and rationally led to specialization and exchange. It is hard to visualize the great leap that money represented, even in its most primitive forms. Humanity took many steps to develop reliable money, that would be widely accepted and easily transported. These steps are closely linked to social evolution and the way we organize ourselves in communities.

Central banking is very young in this temporal dimension. Its development has gone hand in hand with a primary objective: stability, which has not changed, although the way we achieve it has, as a result of experience and the advancement of knowledge.

Today, central banks operate amid pillars we recognize as essential, such as autonomy, independence, technical knowledge, and transparency, all intertwined in building trust and credibility. These are principles we treasure because they allow us to be more efficient in achieving our objectives.

Now, I will review the history of our own central bank, what we have learned from it, and from there invite you to reflect on the challenges of the future, the central theme of this Conference.

### **Money in the First Four Centuries of Chile's Life**

The republican history of Chile is already 215 years old, and if we go back to the encounter of peoples with the arrival of Europeans, it dates back to just under 500 years. In this long history, money in Chile has undergone several transformations. From

a period of significant scarcity during colonial times to abundance in the first hundred years of independence.

During our first centuries, we depended on silver coins minted in Lima, the heart of the Spanish empire in this part of South America. Transporting money was costly, dangerous, and slow, and the chronic trade deficit restricted credit and economic activity.

The situation began to change towards the mid-18th century, when the Spanish crown authorized the opening of a local mint and allowed the circulation of foreign currency. It is important to note that the Chilean Mint was one of the last created, reflecting how economically unimportant our territory was for the crown.

At the beginning of the 19th century took place the process of Independence from Spain. Nevertheless, the scarcity of money remained a problem, which, decades later, private individuals addressed by creating money through commercial banks.

Towards the end of the nineteenth century and the turn of the twentieth, the outlook was different. The Chilean economy had gone through several economic crises, with episodes of devaluation and frequent inflation. There was no macroeconomic institution capable of efficiently facing and solving the country's challenges. This naturally led to the debate about the need to create a Central Bank, as an institution was needed to stabilize the currency and regulate interest rates and the exchange rate.

## **The Creation of the Central Bank**

In 1913, the first attempt to establish a central bank was made, but the idea failed due to World War I. Only on June 1, 1921, did the President of Chile, Arturo Alessandri, announced the creation of a national entity with the monopoly on currency issuance, initiating a debate that would last for years.

After lengthy debates about the monetary standard, organization, and ownership, the Central Bank of Chile was founded in August 1925. It was born as an independent institution with mostly private capital. Its Board consisted of 10 men, appointed by the government, national and foreign banks, business organizations, and unions. The aim was to strike a balance that would prevent control by either the government or private banks.

The Central Bank of Chile would have the monopoly of currency issuance, and its purpose was to regulate credit, currency circulation, and the updating of the currency's value.

The first years were marked by internal political instability, the Great Depression, and the nitrate crisis. Chile, which depended heavily on copper and nitrate exports, was one of the economies most affected by the Great Depression of the 1930s. Export values plummeted by more than 80%, and unemployment soared. Finally, gold convertibility was abandoned in 1932, and the Central Bank became more of a financial supporter of the government than a guardian of monetary discipline.

Over the next 50 years, the Central Bank's functions expanded, blurring its nature and compromising its independence. It came to perform tasks very different from what we now understand as a central bank's, such as foreign trade, copper marketing, and economic development.

A second and third Organic Law-in 1953 and 1960-consolidated the authorization to grant credit to the Treasury and increased the number of government representatives on the Bank's Board. It was also established that its top authorities-governor and vice governor-had to be ratified by presidential decree. This process culminated in what we today know as fiscal dominance.

Between 1950 and the mid-1970s, our economy suffered episodes of runaway inflation, financial controls, and successive balance of payments crises. Inflation reached historical highs in the first half of the 1970s, standing at around 750% annually according to official records.

The lesson from this period was clear and painful. Chronic fiscal deficits financed by monetary issuance were not a recipe for prosperity, but rather a path to hyperinflation, scarcity, and black markets. Money issuance had been dominated by the needs of fiscal financing and not by the need to fulfill the role of money in the functioning of the economy, much less with the objective of macroeconomic stability as we perceive it today.

This era opened a new stage for the Central Bank. First came the prohibition of financing the Treasury imposed in 1979, which was a major change. Then, the concept of autonomy, established in the Constitution of 1980, but which required operationalization through an Organic Law, which was not enacted until 1989.

This significant change aimed at one of the basic functions of a central bank: preserving the value of money. However, we would soon also learn the value of another central bank function: financial stability.

The rapid financial liberalization of the late 1970s and weak supervision led to a severe crisis. The rise in global interest rates in a highly indebted economy led to the bankruptcy of several national banking institutions, some of which had to be bailed out by the Central Bank.

This painful experience had high costs for the country: recession, high unemployment, inflation, and fiscal deterioration. This episode made it clear that the stability of internal and external payments has two branches: inflation and financial stability, the latter in our case being a role shared with other institutions.

In the second half of the 1980s, the economy recovered from the severe recession of 1982-1983, amid significant reforms, including changes to banking law and pension system, which would later influence the development of our capital market. However, inflation was again lacking a credible nominal anchor, and the peso remained a weak currency. The story I have just told in a very condensed form has its own versions in other regions and countries.

However, there is something common to the development of central banking, during the twentieth century, economics consolidated as a discipline, and experience contributed to knowledge. Based on the discussion and failure of the gold standard, the rise and fall of Keynesian policies, the use of the Phillips curve, the limits of monetarism and subsequent developments, we learned about the causes of inflation and ways to tackle it. In summary, we concluded on the relevance of having a monetary policy capable of being a tool in itself and not dependent on fiscal cycles. This is what guides the actions of modern central banks.

From this global experience also arises the autonomy of central banks. In Chile, as I said, this happens with the Constitutional Organic Law of late 1989. I must mention that, although today the autonomy of the Central Bank has broad consensus in society and political circles, the discussion and enactment of the Organic Law was much more complex. History will recognize those who were the architects of agreements that made possible what our Central Bank is today.

## **The Autonomy of the Central Bank**

Autonomy is more than a legal concept. It rests on at least four pillars, as necessary as they are complementary: functional autonomy, organic autonomy, financial autonomy, and trust and credibility.

The first, functional autonomy, refers to the allocation of exclusive powers, functions, and responsibilities, ensuring the ability to exercise them independently, without interference from other State bodies. The second, organic autonomy, means that the institution does not receive instructions nor is it hierarchically subject to other State bodies. The third, financial autonomy, refers to not receiving State funding and having the freedom to manage its assets and have its own audit and accountability mechanisms. The Constitutional Organic Law of late 1989 was based on these concepts of autonomy.

The fourth pillar, trust and credibility, is a concept whose relevance and development have accelerated in the last 30 years. Today, it is an essential aspect of the efficient fulfillment of a central bank's functions, although a few decades ago we were more prone to opacity than transparency.

In practice, the establishment of an autonomous central bank brought important changes to the Chilean economy. It began with a newly restored democracy, strong distrust among technicians from different political sectors, and inflation around 30% annually. The initial step of autonomy demonstrated the new institution's commitment to its objective, deciding on a significant increase in interest rates to tackle inflation.

The rest of the decade would see significant progress. An annual inflation-targeting scheme was adopted, allowing inflation to be reduced slowly but steadily. Monetary policy became an effective tool to control inflation, which allowed it to gain credibility. This was also supported by increasing openness and transparency, in line with global developments in this area.

The inflation problem ceased to be constantly in public discussion. Credit expanded alongside growing financial inclusion and the development and deepening of financial markets. The peso gained confidence and respect.

The progress of the economy and the legitimacy of the Central Bank's autonomy also required an evolving institution. Inflation had already been reduced, and the challenge became how to manage low and stable inflation while ensuring a reliable currency. All this in an environment of increasing financial openness with consequent challenges for a small economy integrated into the world.

## **A Modern Central Bank with Medium-Term Inflation Targets**

Therefore, a solid, transparent, credible, but also flexible monetary framework was needed. This implied an independent monetary policy focused on its inflation objective, with a flexible exchange rate capable of being an adjustment instrument.

At the beginning of this century, Chile fully adopted a medium-term inflation targeting scheme with a flexible exchange rate. This was operationalized with an inflation target of 3% over two years. The exchange rate became market-determined, although the Central Bank retained the option of intervening in exceptional situations. All this in a context where the economy advanced significantly in financial regulation and supervision, opened to the rest of the world, and fiscal policy adopted a rule-based framework.

During this century, the Central Bank has implemented a wide set of tools to keep pace with the developments of the world's most influential central banks. We can say, without complexes, that the Central Bank of Chile today has tools, technical capacity, communication methods, and other characteristics that put it on par with the main central banks of the world.

Except for the period leading up to the Global Financial Crisis and for the aftermath of the pandemic, inflation has mostly been at levels consistent with the 3% annual target. We have faced significant global crises, such as the 2008 Global Financial Crisis and the Covid-19 pandemic, being able to provide the country with measures to mitigate negative effects. Financial stability has accompanied us even in critical global conditions, thanks to adequate supervision and regulation, and forward-looking risk assessment.

We have also faced significant developments in the concept of money. Financial inclusion has increased both in credit and access to payment systems. The ownership and use of digital payment methods have changed significantly in recent years. In Chile, the use of digital payment methods per person is in the middle range among a broad group of economies, higher than countries like Germany, Italy, or Spain.

But, like everyone else, we face the challenges posed by technological development. We must move forward, taking advantage of the best technological breakthroughs without risking security, stability, and confidence in the value of money and the legitimacy of the issuer.

## Central Banks Looking to the Future

Recent years have been challenging for central banks globally. On one hand, we have faced a series of major and unusual shocks. For many of these, we had limited history to understand their effects or to calibrate the use of our tools.

Despite their unprecedented nature, the monetary policy framework built in the last few decades proved its worth, allowing to bring inflation from 14% annually to values around the 3% target, without creating excessive impacts on the real economy. The ability of monetary policy to face this negative scenario is part of the reason why the centennial finds us at a high level of public recognition. And we need to live up to this expectations, redoubling our commitment to sound, timely, and transparent decision making.

We are living in a time when the global population is aging, we are becoming more exposed to costly climate disasters, and we see economies-many of them developed-highly indebted and with no evident signs of changes in trend. On the contrary, we clearly see pressures for higher public spending in many of them.

This greater global sovereign indebtedness implies that fiscal policy will have in those countries less capacity to act in the face of negative shocks, so the responsibility to stabilize and reactivate the economy will fall increasingly on monetary policy.

This raises a relevant question for the future: whether our current monetary policy frameworks have the capacity to take on this additional burden and how we can make them more effective.

Let me mention two tools central banks should pay attention to when seeking greater monetary easing beyond the current interest rate level: the size of our balance sheets and communication of the future path of interest rate, known as forward guidance.

On the first point, after the 2008 Global Financial Crisis, the use of unconventional policies increasing the size of central bank balance sheets became common, which was also used during the Covid-19 pandemic and, in some cases, have not yet been normalized. Thus, in a context of limited fiscal margin, there is the risk that central banks may have to buy sovereign bonds for macroeconomic stability reasons, and this may be perceived as fiscal dominance.

The second, communication of future path of interest rate, does not follow a single practice among central banks. In fact, some use qualitative forward guidance, others use quantitative forward guidance, and some apply a mix of both. Furthermore, the assessment of its effectiveness is not yet fully established, partly because we lack the data for a comprehensive evaluation. Therefore, while it is a relevant tool, it requires deeper analysis. Instances like this Conference provide an ideal environment for such discussion.

The rise of new technologies also stands out. We are on the threshold of a potential technological change that offers us opportunities but also many challenges in various aspects. One of them relates to financial developments, payments, and money.

Regarding money, our *raison d'être*, we can be certain that it will continue to be a means of payment, a unit of account, and a store of value. Here, we are also seeing fast technological developments, but irrespective of the precise form they end up taking, the need to be backed by trust will continue to define the nature of money. This implies that central banks need to remain vigilant and keep up with the challenging pace of innovation in this space.

Facing all these changes will not be easy. That is why instances like this Conference are so important. This is true for economic science as well as for any other activity. But in our case, given the role central banks play in the daily lives of billions of people, these instances of discussion and analysis are absolutely essential.

The Central Bank of Chile has been holding this Annual Conference since 1997, covering various aspects of macroeconomics and central banking. The Annual Conferences of the Central Bank of Chile have addressed the main challenges facing monetary policy and financial stability in a dynamic global context. Topics have included the credibility of emerging markets, international capital flows, macroeconomic risk management, labor markets, and the impact of commodity cycles on open economies. Special emphasis has been placed on analyzing medium- and long-term interest rate trends, as well as the suitability of inflation targeting frameworks and the tools available to central banking.

Additionally, some past conferences have explored emerging topics, such as the presence of agent heterogeneity (companies, households, banks) and climate change and ecosystem service degradation, highlighting their implications for macroeconomic and financial stability. The eminence of the speakers has always been the hallmark of the conferences. Just to mention a recent example, Philippe Aghion, one of the latest recipients of the Nobel Prize in economics, was our Keynote speaker in 2023.

This year's Conference is special because it is part of our Centennial celebrations. As I said before, it is a time for celebration but also for reflection on how we got to where we are and how we will face the challenges ahead. For this reason, it brings together a group of outstanding leaders and international experts to analyze the current and future challenges of monetary policy and financial markets. Over these two days, we will exercise our minds to think about what lies ahead and how we can successfully navigate uncharted waters that will surely be turbulent at times.

The Conference will address future challenges for central banking and whether the available tools are sufficient to face them. Olivier Blanchard will discuss fiscal prospects and their implications for monetary policy. John Williams will speak about the suitability of the inflation targeting framework, while Gita Gopinath will talk about money and sovereignty. Other presentations will address the implications of monetary policy for capital flows, financial conditions, dollar prospects, tariffs and trade wars, as well as risk management. There will also be two policy panels for broad discussions on these topics.

We hope to come out of these two days of discussion wiser, or at least more aware of what the future might bring. We also hope to share with our guests some lessons from

our experiences over these past 100 years that have shaped who we are today. Above all, we hope this will be an opportunity for reflection, for meeting, for forging new ties, and for celebrating the journey traveled.

I would like to thank the Keynote lecturers, presenters, discussants, panelists, representatives of institutions, current and former authorities and professionals of the Central Bank of Chile, as well as other economic institutions, academics, industry experts, and students, for joining us in our centennial celebrations, for their presentations, and for enriching the discussions that will surely arise over the next two days.

I would especially like to mention Ricardo Caballero and Ernesto Pastén for organizing this conference. It has been a huge task, impossible to carry out without the work and support of Elías Albagli, Sofía Bauducco, Daniela Gaete, Mariana García, Andrés Martínez, Pedro Schilling, and, in general, the Economic Research Unit and the Monetary Policy Division; Malgorzata Lange and the International Relations Department; Carolina Besa, Constanza Mantelli, María José Reyes, Graciela Román and Public Affairs Unit, as well as professionals from many other areas of the Bank.

I wish you a very fruitful two days of brainstorming in this nice venue.

Thank you.