Financial Stability Report

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

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*The *Financial Stability Report* for the first half of 2025 can be found at http://www.bcentral.cl.

Introduction

Mr. President of the Finance Commission, senators members of this Commission,

As is usual in the months of May and November, we attend this Committee to present the view of the Board of the Central Bank of Chile on recent financial sector developments and their implications for financial stability, which are detailed in the Financial Stability Report (IEF) that we published this morning.

On Thursday and Friday last week we held our Financial Policy Meeting, where the Central Bank Board decided to maintain the Countercyclical Capital Buffer (CCyB) for the banking system at a level of 0.5% of risk-weighted assets. This requirement is a precautionary macro-prudential measure whose main objective is to strengthen the resilience of the banking system.

As we are usually reminded at the beginning of these presentations, the IEF is part of the mandate given to us by the Law to ensure the normal functioning of internal and external payments. Its objective is to analyze the vulnerabilities, potential risks and mitigators of our financial system and its capacity to absorb severe shocks. It is, therefore, a Report which, unlike the Monetary Policy Report, does not present projection scenarios, but, on the contrary, focuses on risk scenarios which, though unlikely, are a possibility.

This quality of focusing on risks —characteristically with a negative bias and a cautious tone— may make it seem to an unfamiliar reader that a very complex outlook is being outlined. We wish to make it clear that this is not our purpose, but rather to give an account of how the Chilean economy can handle potential adverse scenarios.

In this IEF, the main change from our presentation to this Commission last November 2024 is the considerable increase in global uncertainty following the U.S. government's tariff announcements.

This process had a peak of financial volatility after the unexpected magnitude of the announcements made in early April, to which its subsequent developments also contributed. More recently, there are some signs suggesting that there is a willingness to favor new agreements. In that scenario, we observed significant movements in the prices of financial assets in the world markets.

Despite the magnitude of the shock, interestingly the financial markets around the world — Chile being no exception— have been able to accommodate these movements and have functioned without major disruptions.

With respect to our country, it is important to point out that the imbalances of previous years have been fixed and the financial situation of credit borrowers —that is, households and firms— has been improving over the last few quarters. At the same time, banks have liquidity and capital levels that would allow them to deal with adverse events.

This puts us in a better position to face a significant deterioration in the global scenario. In any case, our country is not immune, nor can it isolate itself from what is happening in the world. We have fundamental pillars, such as macroeconomic soundness, a robust regulatory and financial supervision framework, and the tools to face complex situations. But this does not spare us from continuing to work to strengthen them.

Let me now turn to the contents of the Report and elaborate on several of the issues I mentioned in this introduction.

Financial markets' evolution

As I said, the most salient economic and financial development of the last few months has been the considerable increase in global economic uncertainty.

Since we published our previous IEF in November 2024, there have been a number of developments in the global political and trade arena. The inauguration of the new US administration in January led to an increase in trade tensions, which was expected given previous statements by the incoming authorities. In fact, between January and March there were several announcements and counter-announcements of tariff measures on specific countries and products.

The highest point of these tensions occurred at the beginning of April, when the U.S. government announced tariffs that significantly exceeded expectations. Some economies retaliated with tariffs on American products, triggering an escalation of announcements that led to a peak in financial volatility in the first half of the month.

After that, the U.S. government announced a 90-day postponement of part of the measures, at which time it expressed its willingness to negotiate agreements. This was well received by the markets. Thus, in recent weeks we have heard of agreements between the United States and the United Kingdom, the temporary reduction of tariffs and announcements of talks between China and the United States, which have further reduced financial volatility. However, in an environment of frequent news in different directions, uncertainty about what will come out of this process remains high.

At the highest point of this period, the index measuring trade uncertainty almost doubled, reaching its highest on record. In turn, financial volatility rose to levels comparable to those at the outbreak of the pandemic. In subsequent weeks, financial volatility indicators have been reversing some of the previous increases (Figure 1).

As I mentioned, financial markets managed to absorb this significant increase in volatility without major disruptions. Nevertheless, important movements were observed, highlighting the unusual evolution of US financial assets for several weeks, in particular long-term interest rates and the US dollar.

Typically, in the face of global uncertainty, these assets tend to provide a safe haven. In these cases, investors protect themselves in U.S. Treasury bills, thus raising their price and reducing long-term interest rates. A desirable side effect is that lower rates mitigate the impact on financial conditions. This time around, however, the dollar depreciated and long-term rates on sovereign instruments rose, creating a scenario where investors reduced their U.S. positions. In any case, these variables have continued to react largely to trade-related news.

Contrasting with the US experience, in emerging economies, including Chile, financial markets have evolved more favorably than in previous stressful episodes. Although sovereign spreads rose in April, these increases were of a lesser magnitude compared to past situations, while sovereign interest rates have been slightly reduced, currencies have appreciated against the dollar and stock markets have yielded positive results (Figure 2).

At home, the increase in the volatility of long-term interest rates and the Chilean stock market has been lower than the average for emerging economies. The peso/dollar parity, on the other hand, has been more volatile than in comparable economies, which is to be expected given its role as an adjustment variable during episodes of stress (Figure 3).

We are seeing the change in external conditions while other global vulnerabilities mentioned in previous Reports are still present. These include the high levels of public and private debt in the world, doubts about the performance of some Chinese economic sectors, and the unfolding of diverse geopolitical conflicts.

In this context, a negative perception of the future performance of the global economy, particularly that of the United States, has been taking hold. Post-April 2 forecasts —for example, those of the IMF and Consensus Forecasts— already show adverse impacts of higher tariffs on economic activity (Figure 4).

Notwithstanding, we still do not have a material background as to how the changes in the global scenario are affecting our economy. Moreover, among other elements, doubts persist as to which tariff scenario will prevail and what effects the increased uncertainty will have on the world economy.

Thus, although it is still difficult to assess the magnitude of the effects and when they will materialize, it is clear that the impact on activity will be negative. The next few months will provide us with more clarity on this issue. The Central Bank, as always, will react with the forward-looking approach that is allowed us by the two-year inflation target.

Credit lenders' and borrowers' situation

As I mentioned at the beginning, the IEF is a report that seeks to contribute to the understanding of the financial system and its potential risks. The report focuses on assessing its capacity to adapt adequately to adverse economic phenomena. To this end, by methodically subjecting the economy to severe risk scenarios, vulnerabilities are detected as well as the mitigating factors available to credit users, that is, households, businesses, and the government, plus the banking system.

That said, it is important to note that, in recent quarters, the Chilean economy has fixed the macroeconomic imbalances of previous years, with a more favorable economic performance and an increase in household and corporate income, together with the corresponding recovery in domestic demand.

Thus, the activity gap has closed, the current account deficit has been significantly reduced and, although inflation remains high, the outlook for convergence to the 3% target by early 2026 is reaffirmed (Figure 5).

Regarding the financial situation of households and firms, the deterioration of the world economy finds them in a financial position that has been improving in recent quarters. This reduces the risks for the financial system.

This improvement in the financial position of households is taking place in a context where the increase in income and savings, together with the reduction in short and long-term rates, have improved the indicators of indebtedness and financial burden. Thus, consumer credit defaults have been reduced, while mortgage defaults have stabilized (Figure 6).

About businesses, commercial default remains high from a historical perspective, even though there has been a wide-ranging decrease among the different economic sectors (Figure 7).

On aggregate, corporate indebtedness stood at 112% of GDP at the end of 2024. This figure is somewhat lower than that reported in the first half of last year. This result came from a higher level of GDP, which more than offset the increase in external debt in nominal terms, due to the issuance of instruments abroad and the depreciation of the exchange rate (Figure 8). In the larger companies —those reporting to the Financial Market Commission (CMF)— there was an increase in operating cash flow and liquidity close to its historical average.

In any case, despite the favorable evolution of financial conditions at a general level, vulnerabilities persist in specific groups. Larger companies show a greater recovery in financial indicators like indebtedness, margins, and financial burdens in contrast with the persistent lag in the recovery of smaller companies and those that received Fogape loans during the pandemic, among other factors (Figure 9).

Another sector that has been a constant focus of analysis is residential real estate, which has remained persistently weak. The main factors that have affected this sector have remained the same. Mortgage rates, despite some decrease, are still higher than they were in previous years, negatively impacting the demand for mortgage loans. Also, there is still a high stock of unsold finished homes.

Housing prices show a slight increase, although as noted in previous Reports, a significant downward adjustment continues to be a risk factor. However, in the face of a stress scenario, such as an abrupt adjustment in the value of collateral, banks have sufficient mitigators in terms of debt-to-collateral ratios and conservative collateral valuation criteria (Figure 10).

Generally speaking, at the margin, there have been incipient positive signs in the real estate sector: a good performance in the stock market valuation of companies in the sector; lower commercial loan rates; and default rates among these firms have stabilized, although they remain high (Figure 11).

The banking system is in a solid position and well prepared to face a more negative scenario. The banks have constituted sufficient provisions and guarantees to cover the level of default in their portfolios and show some headroom in their liquidity indicators.

In addition, banks have continued to strengthen their capital base, and their solvency indicators have increased in line with the process of convergence to Basel III standards, mainly through new issues of perpetual bonds that took place during the last half of the year. And their profitability has remained above historical averages (Figure 12).

As for credit, its performance has not changed much in recent quarters. This, in general, is associated with a still weak demand and stable supply conditions. This assessment is in line with our first quarter's Bank Lending Survey and with the responses of the firms surveyed for our May Business Perceptions Report (IPN).

The first of these data shows a weaker demand in all credit segments: consumer, housing, big companies, SMEs, real estate, and construction. In the IPN, companies also report contained demand, although somewhat higher investment intentions emerge than in previous surveys, which would be financed with credit (Figure 13).

In any case, it is important to note that the cost of credit has been decreasing, in line with its benchmarks and, in the case of shorter-term rates, with the policy rate cuts. Thus, the firms assess that the level of interest rates has been losing relevance as an explanation among the factors that determine their perception of the conditions for accessing credit (Figure 14).

Main risks

The main risk to local financial stability comes from abroad, in particular from a new upsurge in foreign geopolitical and commercial tensions.

In a context where the valuation of external financial assets remains high, the risk of new price adjustments is still present. Should there be a sudden adjustment in global risk appetite, this could trigger a correction in asset prices, deteriorating financial conditions facing emerging economies.

In such a scenario, a significant increase in sovereign spreads and abrupt capital outflows could be observed, with consequences on the liquidity, borrowing capacity, and solvency of agents. This is particularly relevant in emerging economies with weaker fiscal and external buffers, as pointed out by the IMF in its latest Global Financial Stability Report. Locally, the reduced depth of the capital market compared to previous episodes could hamper its capacity to cushion the effects of abrupt changes in portfolios on financial variables.

Regarding the local impact of these events, tensions in the external scenario would negatively affect both local economic activity and the payment capacity of households and firms in the country. Although certain positive developments have been observed in recent weeks, the magnitude of the impact that trade tensions —including the increase in tariffs and uncertainty— will have on the Chilean economy is still unclear, just as we do not know the dimensions of the shock itself or its evolution over time.

All in all, we cannot rule out scenarios in which these effects would be more relevant, negatively impacting activity, the labor market and wealth, affecting the repayment capacity of households and firms. These repercussions could be intensified along with commercial and geopolitical tensions.

Stress tests

The IEF includes stress tests that allow us to evaluate the economy's ability to withstand adverse events. In these scenarios, the economy is subjected to a very significant shock on different macroeconomic and financial variables, including activity, inflation, employment, interest rates, and the exchange rate. These stress scenarios include decreased GDP and increased unemployment by several percentage points, with interest rate hikes of several hundred basis points, in addition to exchange rate fluctuations and volatility.

For this test, performed with data up to the end of 2024, the results of the stress scenarios for credit users show a stable or better situation with respect to the previous Report. Considering the evolution of some of the variables in the first months of 2025, e.g., default and income growth, the situation would improve for both firms and households.

In the stress testing of firms, the debt-at-risk decreases, explained by both the evolution of sectors that make up a significant share of the banks' portfolios and commerce.

Regarding shocks, the one from interest rates has a somewhat milder impact due to the fall in the cost of short-term financing, which has reduced the financial burden. This is partially offset by a greater effect of the activity shock. Of a lesser magnitude, indexation risk is mitigated by the limited UF debt holdings and the convergence of inflation.

For households, under the stress scenario, debt-at-risk is mostly unchanged from the previous test. The shock has the greatest impact on quintiles first to fourth. The interest rate shock has the greatest impact on debt-at-risk, followed by the impact of higher unemployment. By portfolios, and compared to the previous test, the debt at risk rises in the mortgage portfolio and falls marginally in the consumer portfolio (Figure 15).

About the banking system, the stress tests show that the industry remains solvent in the face of a severe shock. In a risk scenario where activity contracts sharply, funding costs increase and financial conditions deteriorate, the level of capital in the banking system would allow it to absorb potential losses.

The availability of additional capital headroom, contributed to by capital increases, perpetual bond issues and the construction of regulatory buffers, has improved their shock absorption capacity in times of financial stress. In such scenarios, considering the most rigorous core capital metric (CET1), banks also remain solvent, with some banks of varying sizes making partial use of the regulatory buffer provided for these purposes (Figure 16).

With this in mind, at last week's Financial Policy Meeting we decided to keep the Countercyclical Capital Buffer activated at 0.5% of Risk Weighted Assets (RWAs). We believe that this level is consistent with the macro-financial and risk conditions facing the financial system. This risk environment highlights the importance of having a capital buffer previously constituted by the banks, which enhances their capacity to withstand a shock and can be released in the event of a financial stress event, which would help to mitigate its impact on the provision of credit to households and businesses.

In addition, as we communicated in November last year, the first Financial Policy Meeting in 2026 the start of the convergence towards the neutral level of 1% of RWAs will be evaluate. This will be done, as far as macro-financial conditions and the evolution of credit allow, and considering a minimum term of one year for its construction.

Having revisited the contents of our Financial Stability Report, I will close this presentation with some concluding thoughts.

Concluding thoughts

Dear senators. We are facing a global scenario of high uncertainty, where episodes of high volatility are not going away anytime soon.

The trade tensions we are currently experiencing are unusual events, triggered by an unprecedented phenomenon, and are therefore more difficult to analyze. Moreover, it is not clear what level of tariffs will prevail globally, nor how they will affect production chains, which are today so closely interconnected. What is clear is that global trade and its institutional framework are undergoing significant changes and its impact on the world economy is negative, particularly for a small, open economy such as ours. We are talking about both the effects of an uncertain transition and the long-term costs as productivity is diminished due to a less efficient use of comparative advantages among economies.

These changes, and the risks associated with them, are part of a global picture that was already fraught with considerable uncertainty. Countries have used up slack in the face of the crises we have confronted in the recent past —the pandemic, for one— and these have not recovered and, in fact, have left the world greatly indebted. Indeed, the prospects for adjusting the high public debt are not clear. On the one hand, spending is under pressure because the population is aging, and we face an increasing number of natural disasters. On the other hand, the escalation of geopolitical conflicts puts pressure on defense spending.

In these circumstances, we need to start analyzing more extreme risk scenarios, where the origin of the shocks is associated with events that until recently were not very likely, but whose consequences on the global economy and financial stability are much more significant.

Regarding how Chile is facing this situation, I would like to reiterate that the economy is on a better footing, to the extent that we have resolved the major macroeconomic imbalances of previous years and the local financial system has capacities and mitigators provided by a robust regulatory framework and financial supervision. However, we are not immune to the effects of a global shock.

We cannot isolate ourselves from what happens in the world. Our task is to be prepared when a shock hits. Although we have enough tools and we have been complementing and strengthening them, we are coming from a complex period in which we have been using up slack. That is why we have spoken on several occasions in this same forum about the importance of all of us being actively concerned about restoring our economy's capabilities. Today, the relevance of this discussion increases.

On the fiscal front, the persistence of structural deficits for several years has been reducing slack and increasing public debt. Official projections indicate that, in the short term, the latter will be slightly below the cap of 45% of GDP defined as prudent by the authorities. However, as has been pointed out in previous reports, there are risks that could lead to debt overstepping the mark in the coming years. Sustaining the debt below the defined threshold requires a difficult set of measures and agreements. This is a major challenge in which all actors must compete. Maintaining prudent fiscal accounts through sustainable sovereign indebtedness is fundamental for the economy to be able to mitigate the impact of future shocks and improve financing conditions for households and firms.

The depth of the capital market is another factor to be on the lookout for. It was severely affected after the withdrawals of pension funds. It is important to remember once again that a deep capital market allows us to mitigate the effects of exposure to global markets, especially in the face of sudden reversals in financial prices. For this reason, it is necessary to maintain our efforts aimed at deepening the local financial market.

The pension reform will contribute to increase household savings, which will be reflected in a deeper capital market, although this will take a long time. Considering the volume of pension funds (roughly 60% of GDP), an important challenge is to implement the new regulatory framework while avoiding undesired effects on the valuation and volatility of financial assets. However, the approved legal framework provides for a gradual transition and allows for a prudent changeover management to give room for the necessary adaptations and mitigate risks.

About our banks, the implementation of Basel III will be completed by the end of the year, thereby increasing the soundness and resilience of the banking system. The industry has made an orderly transition to the capital buffers of this new standard, using different instruments to fulfil with the requirements imposed by the Law.

As part of Basel III, in May 2023, the Central Bank activated the Countercyclical Capital Buffer at 0.5% of risk weighted assets. On that occasion, bearing in mind the macro-financial conditions and the situation of the banking system, it was estimated that the requirement could be met within one year, without causing a significant impact on credit. Several analyses that we have shared since then confirm this initial assessment.

The activation of the CCyB provides us today with an additional tool that contributes to mitigate the procyclical effect of credit in times of crisis, particularly when, as a consequence of the crisis, capital becomes restrictive.

In late 2024, we published a revised framework for this instrument, in which we defined it as an essentially precautionary tool. At the time, a neutral value of 1% of risk-weighted assets was established, where it would remain for most of the time. In addition, a transition path was established in which convergence to the neutral level will only begin to be analyzed once the implementation of the set of requirements involved in Basel III has been completed, and bearing in mind the macro-financial and credit market conditions at that point in time.

At the same time, as part of our financial policy agenda, we have been making progress in the generation of instruments to improve liquidity management in the domestic financial market. The objective of this agenda is to strengthen the mechanisms through which liquidity can flow between market agents themselves, thus reducing the Central Bank's dependence on liquidity tools.

One such instrument is the so-called repo transactions, which are contracts for the sale and repurchase of financial instruments. Their market is underdeveloped in our country, partly due to the lack of a framework contract offering legal certainty and establishing common standard conditions recognized at industry level for both local and cross-border operations.

In order to solve these problems, a framework agreement will be put for consultation to establish the general terms and conditions, including the treatment in the event of default. Of particular importance in these processes is the possibility of offsetting, collateral execution and close-out netting of the positions held by the parties among themselves as a result of the agreed repos. This regulation, to be issued by the Central Bank, will be put out for public consultation during the first half of this year.

Liquidity management will be complemented by enabling self-securitized bonds that can be used as collateral in transactions with the Central Bank, or between financial institutions. These are specifically retained securitization instruments issued by commercial banks, which have as underlying assets from their own portfolios (mortgage loans), and which comply with certain prudential conditions defined in the regulations issued by the Bank.

Complementing these initiatives, the CMF has published a proposal for a regulatory change to reduce, under certain conditions, the risk weights applicable to both repos and self-securitization transactions.

Another initiative that the Central Bank has been promoting is to encourage the use of the Chilean peso in cross-border transactions, which has been known as "peso internationalization." This initiative has its origin in a regulation issued by the Central Bank authorizing certain transactions with non-residents denominated in Chilean pesos (opening of correspondent accounts, credit operations, derivative transactions with physical settlement in pesos). This has several objectives, including to make the local financial market more competitive, to increase its liquidity levels and to deepen it.

Its implementation, however, has faced several challenges, largely due to regulatory frictions that have been gradually cleared up. Most recently, our IRS (SII) established the tax reporting conditions for these operations, necessary to enable correspondent accounts in pesos, and the CMF issued a new regulation that will facilitate the issuance of credit lines associated with these accounts.

With the fulfillment of these milestones, we believe that the last obstacles to progress towards the internationalization of the peso, which the Bank has strongly promoted, have been resolved.

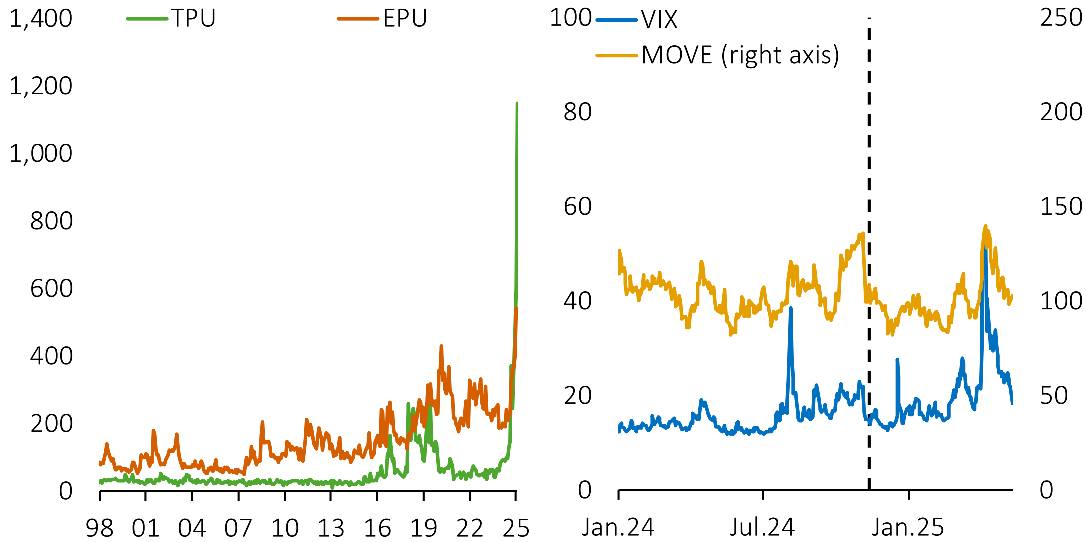
Dear Senators, this Report talks about risks, not projections. It talks about the capabilities of our economy, particularly of the banking system, to face shocks of great magnitude, from the point of view of the risks and resilience of the financial system. The scenario in which this analysis takes place is one in which the system and the users of credit, namely households and businesses are, on average, somewhat less vulnerable. But we are certainly not immune, and we must also be always aware of the heterogeneities of the financial system.

The IEF also tells us about our challenges. Of the importance of rebuilding slack and improving our strengths. This not only includes the work of the Central Bank and the development of an agenda of legal and regulatory advances, but also the responsibility of all of us who make public policies to generate resilience and cushion the effects that external shocks have on our country. This task is essential for stability and growth, and we must face it as a full challenging and permanent task.

Thank you.

Figure 1

Uncertainty indicators (1) (index) | **Implicit volatility (2)** (index)



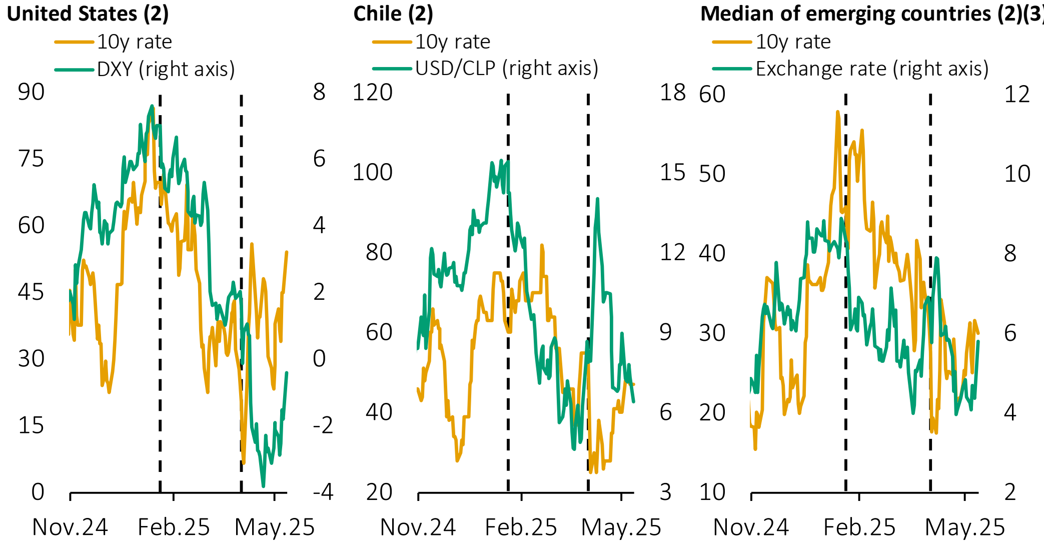
(1) TPU stands for Trade Policy Uncertainty; EPU stands for Economic Policy Uncertainty. (2) Dashed vertical line marks statistical close of previous IEF. VIX: implicit volatility in one-month options on S&P500. MOVE: implicit volatility index in one-month options on 2-, 5-, 10-, and 30-year US Treasury bills. Sources: Bloomberg, Davis (2016); Caldara et al. (2020); Caldara and Iacovello (2022).

Figure 2

Ten-year interest rates and exchange rates (1)

(change from 2.Jan.24, basis points; change from 2.Jan.24, percent)

United States (2) | **Chile (2)** | **Median of emerging countries (2)(3)**

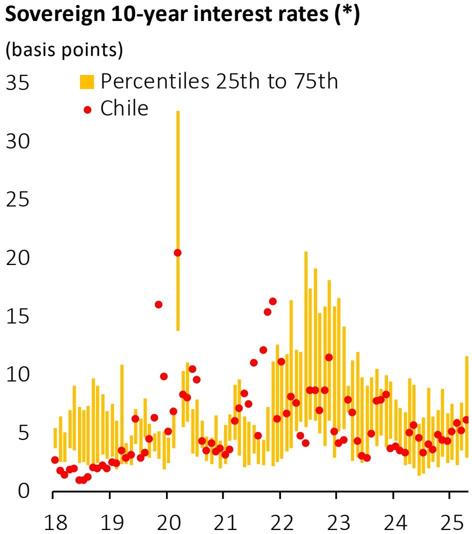


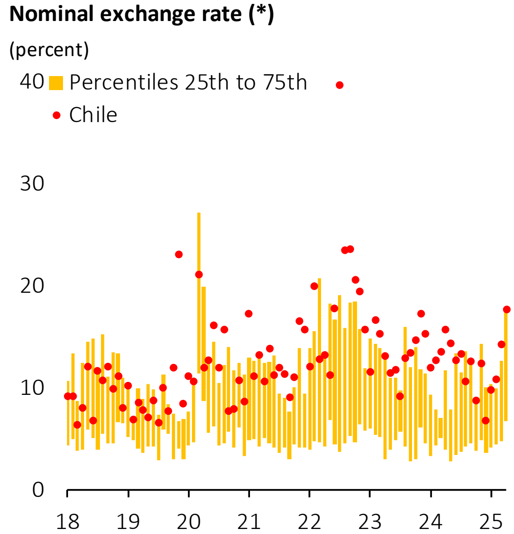
(1) Vertical lines mark 20 January and 2 April 2025. The change in the 10-year rate is constructed on a series that repeats the previous day's data when there are no transactions. (2) An increase (decrease) indicates currency appreciation (depreciation). (3) Means the median of the cumulative change in basis points for the 10-year rate and the percent variation of the exchange rate of a set of emerging economies (Brazil, Chile, Colombia, Hungary, India, Indonesia, Mexico, Peru, Poland, South Africa, Thailand and Turkey).

Sources: Central Bank of Chile and Bloomberg.

Figure 3

Interest rate volatility and exchange rates in emerging economies



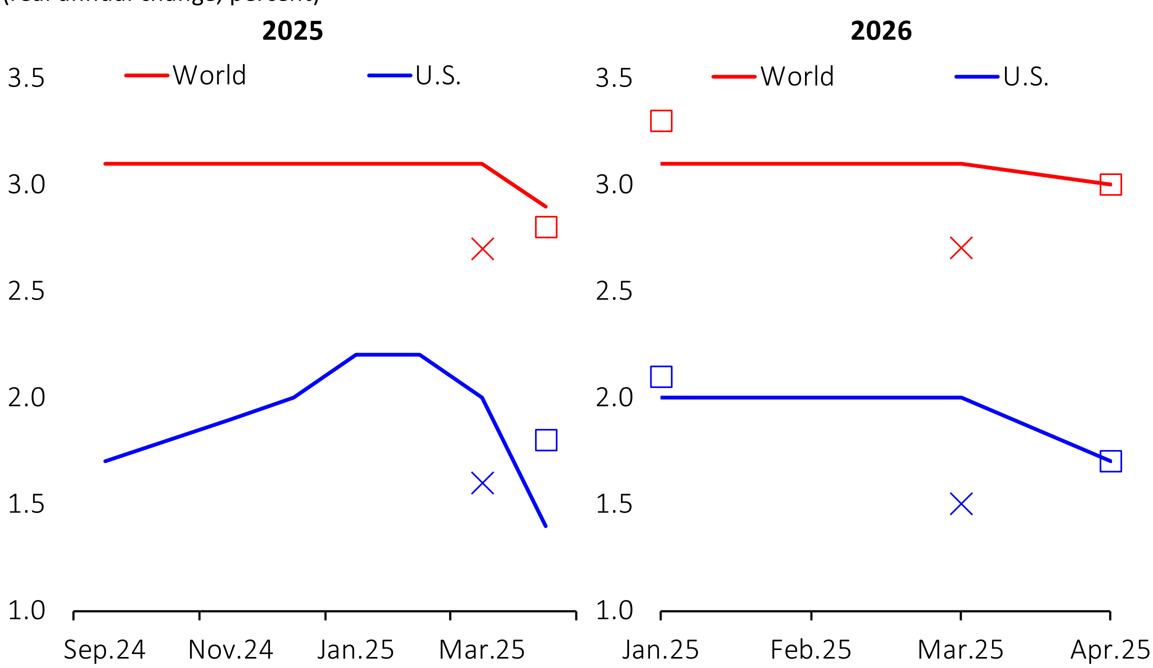


(*) The bars show the difference in volatility between the 25th and 75th percentiles of a set of emerging economies that includes: Brazil, China, Colombia, Hungary, India, Indonesia, Malaysia, Mexico, Peru, Poland, Russia and Turkey. Annualized standard deviation of daily change/return in each month. Sources: Central Bank of Chile and Bloomberg.

Figure 4

Growth forecasts for the world and the United States (1)(2)

(real annual change, percent)

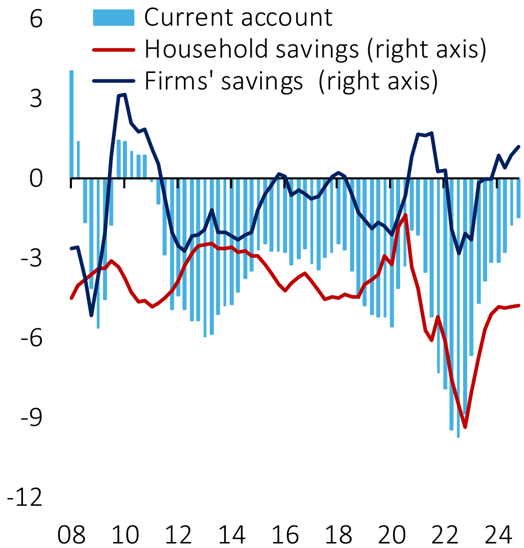


(1) Solid lines are Consensus Forecasts data, calculated on a sample of countries representing an average of 86% of the world economy. For the rest of the world, the weighted average between the PPP-weighted growth of advanced economies and the respective aggregate of emerging economies is used. Forecast for 2026 is available as of January 2025. (2) Squares and crosses correspond to the latest WEO and IPoM forecasts respectively. Sources: Central Bank of Chile; Consensus Forecasts and International Monetary Fund.

Figure 5

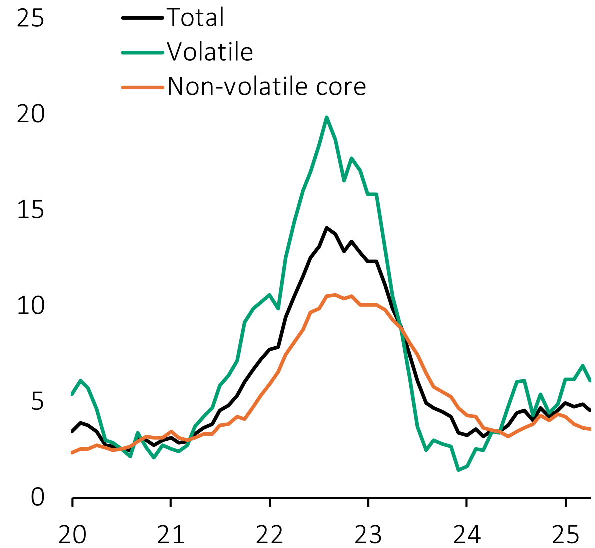
Current account and savings

(percent of GDP, annual cumulative)



Inflation (*)

(annual change, percent)



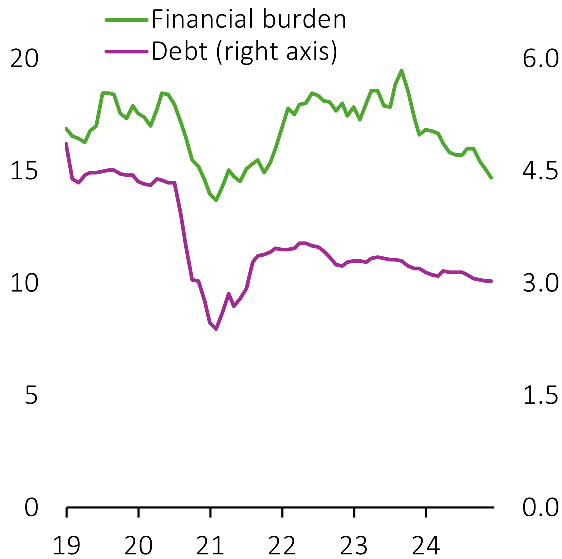
(*) The series consider the 2023 benchmark CPI basket and the splicing of the Central Bank of Chile.

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

Figure 6

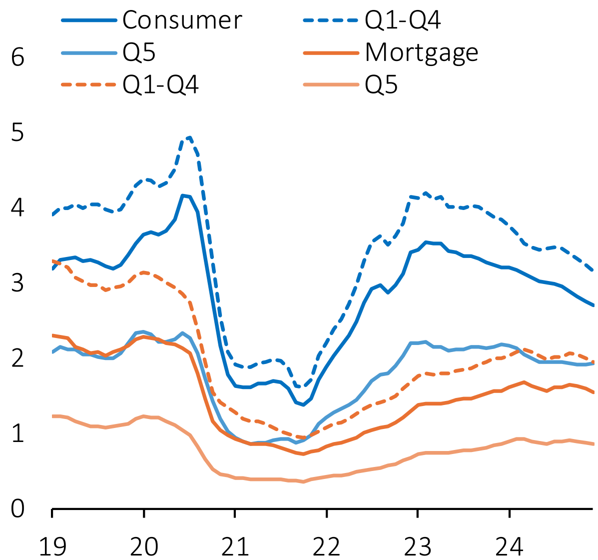
Financial burden and bank debt (1)

(percent of income, times income)



Default rate on mortgage and consumer loans (2)

(percent of debtors in each group)



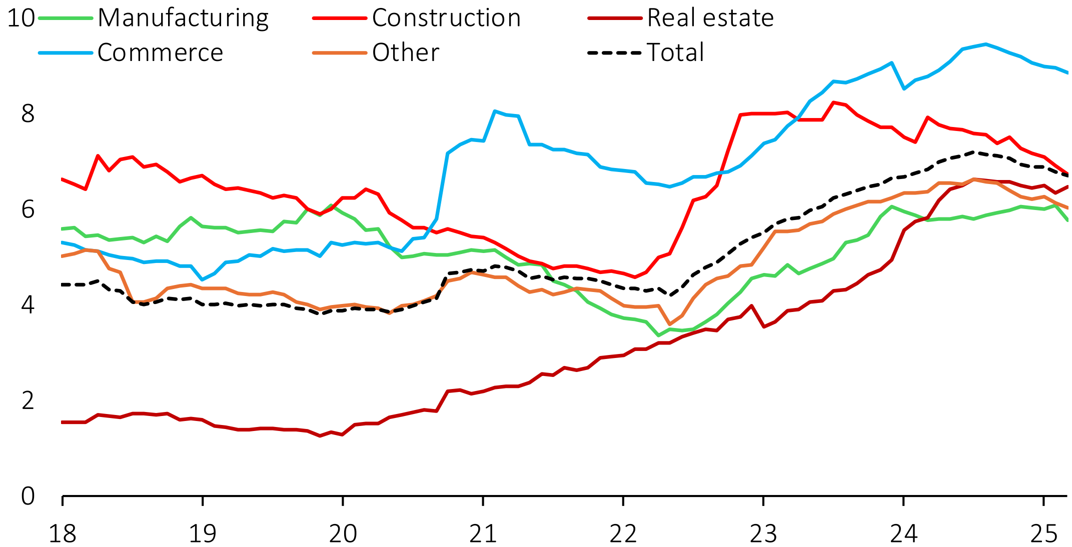
(1) Median, moving quarterly average. (2) Moving three-month average. Q1-Q4 up to C$1,365,000, Q5 up to C$5,200,000. Q5 truncated in tax cap, which could bias upward the quintile's indicators.

Source: Central Bank of Chile based on information from CMF, AFC, and SUSESO.

Figure 7

Non-performing portfolio (*)

(percent of debt outstanding)



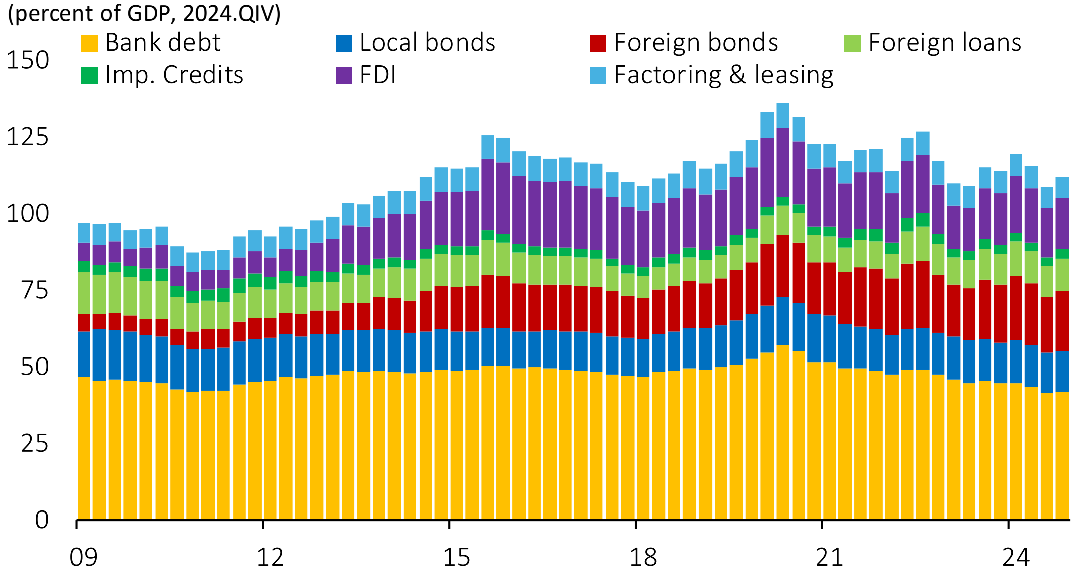
(*) Locally financed firms. Non-performing portfolio refers to non-performing C or group portfolio. Other refers to other economic sectors such as: Agriculture, Mining, Financial services, Transport & Telecommunications, Natural resources and unclassified. Provisional information for 2025.QI. For more information see Box II.1 in IEF for the first half 2024.

Source: Central Bank of Chile based on information from CMF and SII.

Figure 8

Debt of non-banking firms (*)

(percent of GDP, 2024.QIV)



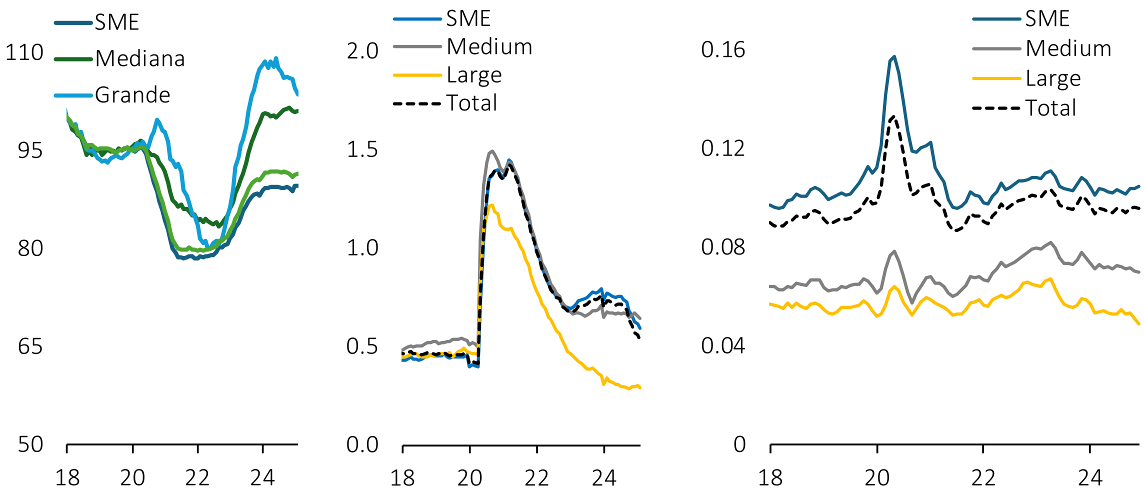
(*) Quarterly data based on firm-level information with the exception of non-bank factoring, leasing and others, securitized bonds and bills of exchange. Local bank debt. Does not include commercial college debt.

Source: Central Bank of Chile based on Achef and CMF data.

Figure 9

a) Annual operating margin (1)(2) **b) Indebtedness (1)(3)** **c) Financial burden over monthly sales (1)**

(index, base Jan.2018=100) (times, median) (median by group)

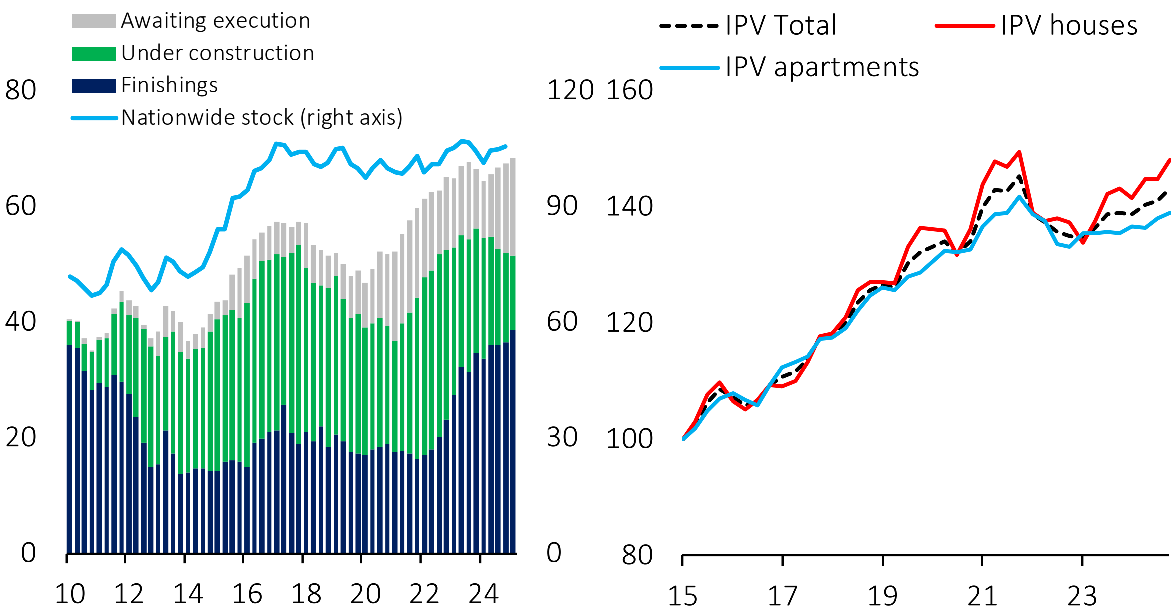


(1) Data through February 2025 for local bank-financed companies. Sales brackets defined as of December 2022: Small (2,400>sales<25,000 UF/ year); Medium (25,000>sales<100,000 UF per year); Large (sales>100,000 UF/year). (2) Annual operating margin = (annual sales-purchase of intermediate good)/annual sales. (3) Indebtedness=debt/annual sales.
Source: Central Bank of Chile based on information from CMF and SII.

Figure 10

a) Stock of unsold new homes (1) **b) Housing price index (IPV) (2)**

(thousands of units) (index, 2015.QI=100)

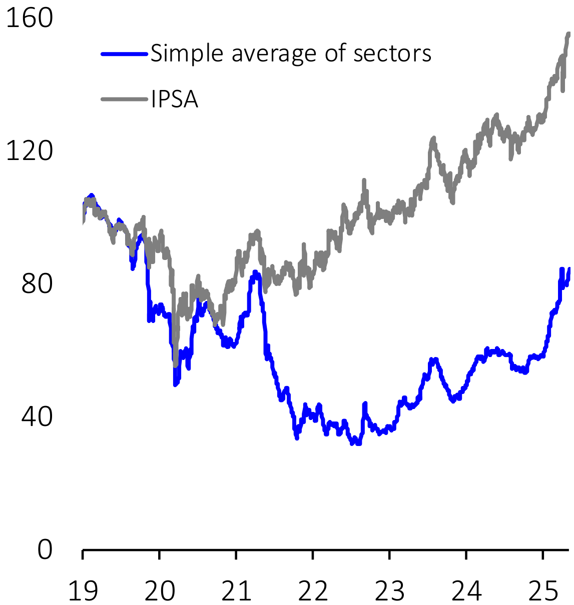


(1) The bars represent stock in Santiago Metropolitan Region. (2) Nationwide data.
Source: Central Bank of Chile based on CChC and SII data.

Figure 11

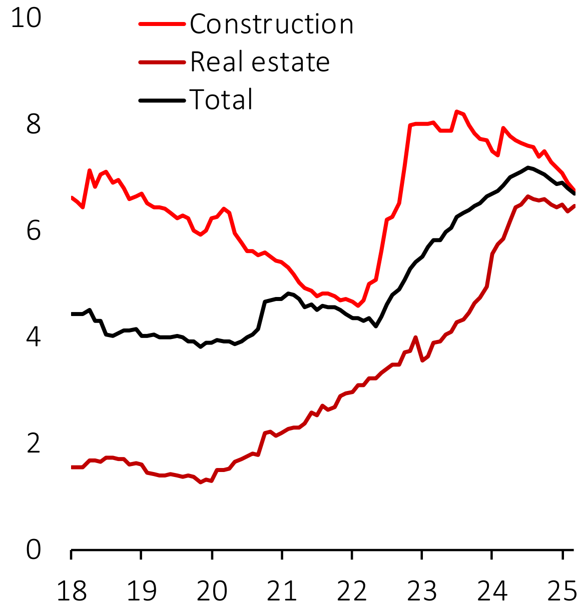
a) Stock market valuation of firms in the construction and real estate sectors

(index, 3.Jan.2019 = 100)



b) Portfolio in default (*)

(percent of debt outstanding)



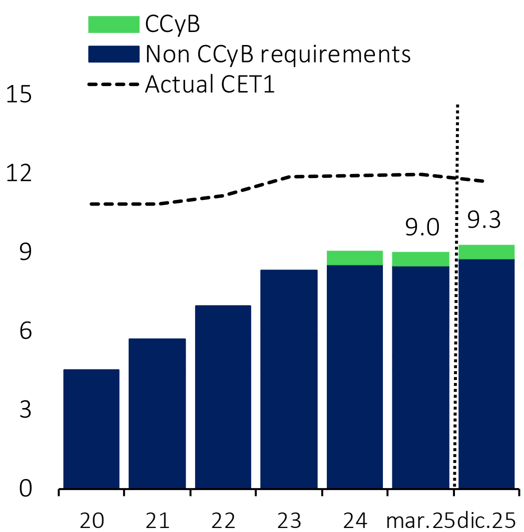
(*) Locally financed firms. Non-performing portfolio refers to non-performing C portfolio or group portfolio. Provisional information for 2025.QI. For more information see Box II.1 in IEF, first half 2024.

Source: Central Bank of Chile based on Bloomberg, CMF and SII data.

Figure 12

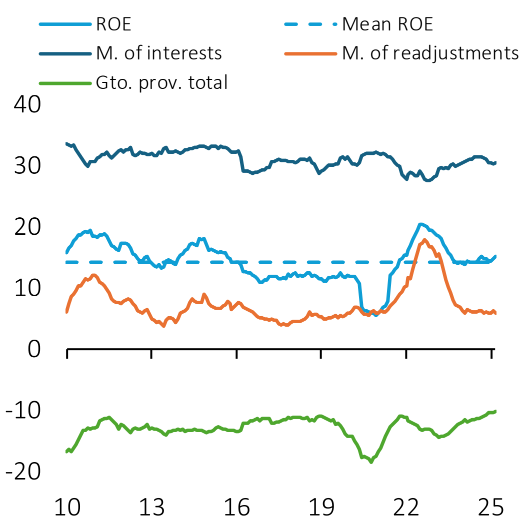
a) CET1 and capital system requirements? (1)

(percent of risk-weighted assets)



b) Banking system's return on capital (2)

(percent of capital)



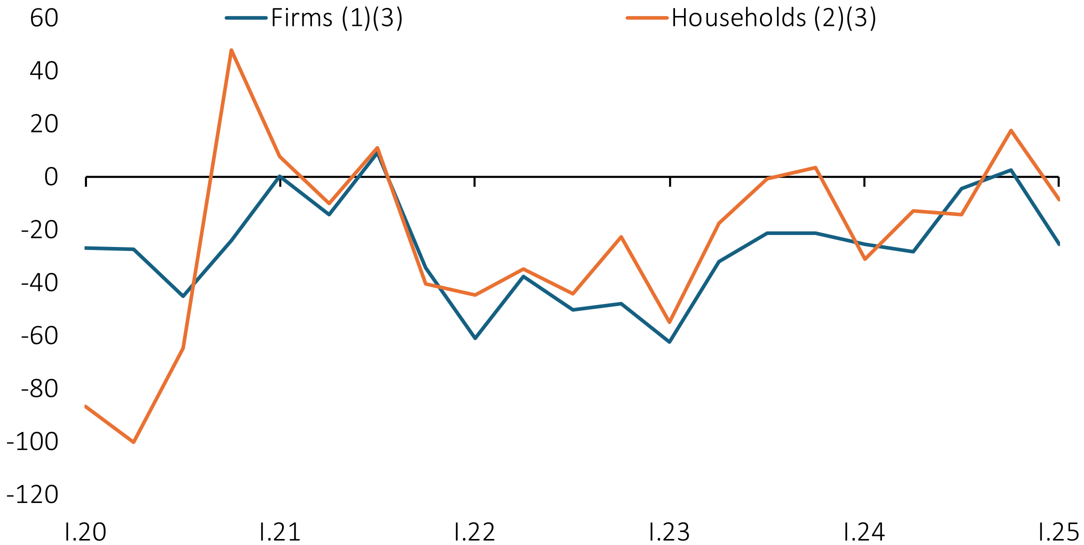
(1) Expected requirements for December 2025. Blue bars show minimum capital requirement and other charges to be paid with CET1 as defined in the Law. (2) Return refers to 12-month rolling sum. Averages calculated from 2010 to date.

Source: Central Bank of Chile based on CMF data.

Figure 13

Bank Lending Survey: change in demand for credit

(percent of responses)



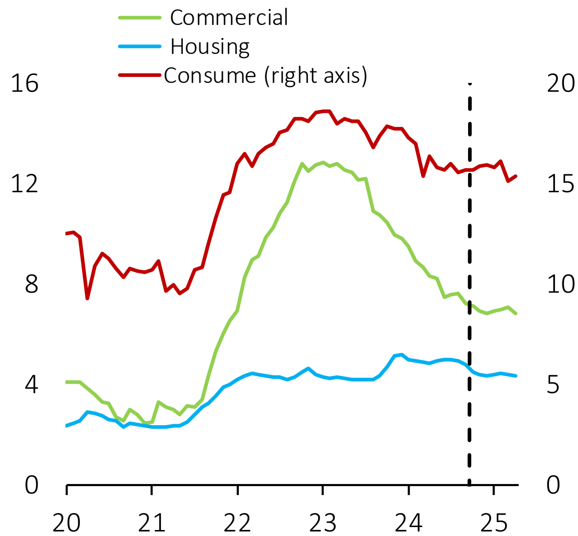
(1) Simple average of large companies, SMEs, real estate and construction firms. (2) Simple average of consumer and mortgage loans. (3) Each series represents the difference between the number of surveyed banks that perceive some degree of strengthening of loan applications and the number of those who perceive some degree of weakening of loan applications, both as a share of total responses.

Source: Central Bank of Chile.

Figure 14

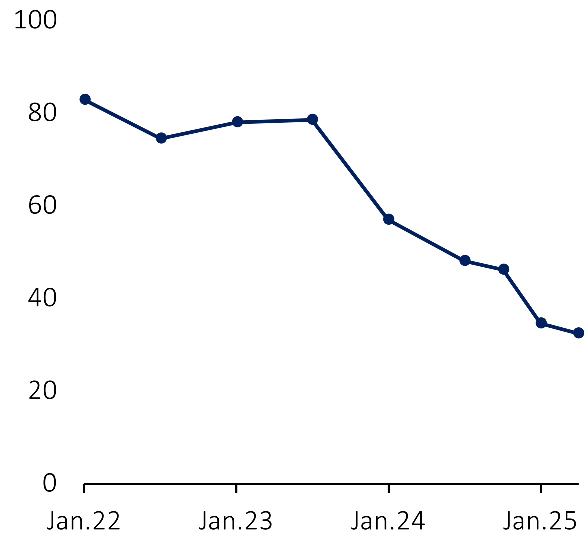
Interest rates on installment loans (*)

(percent)



EPN: interest rate hike due to worsened financial conditions

(percent of respondents that gave this reason under "less favorable conditions")



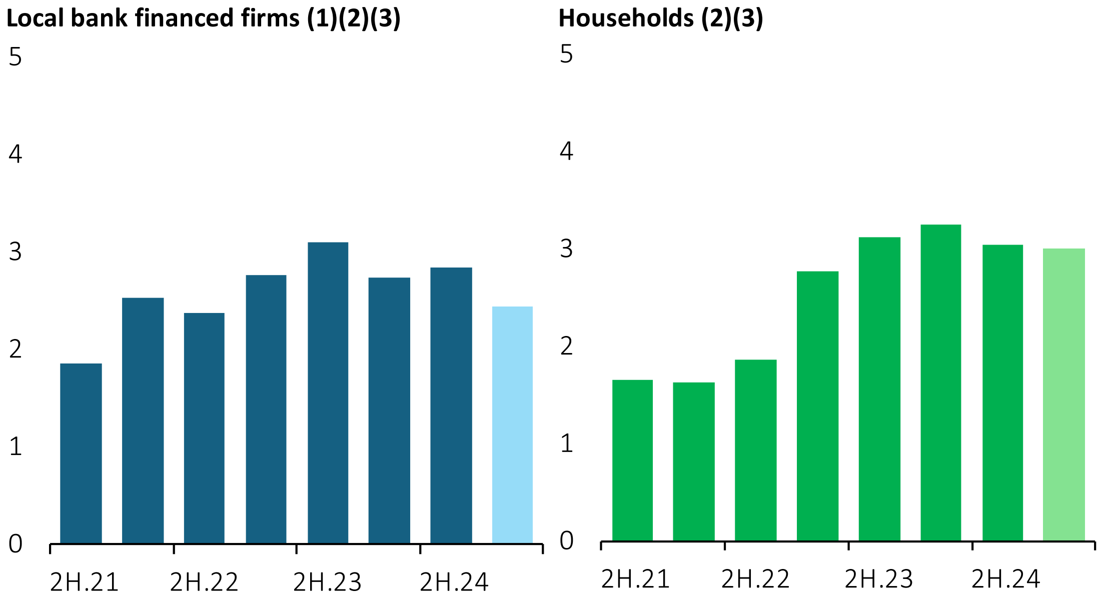
(*) Rates in pesos for commercial and consumer loans; rates in UFs for housing loans, with coverage only for the Metropolitan Region. Dashed vertical line marks statistical close of previous IEF.

Source: Central Bank of Chile based on information from its Business Perceptions Survey (EPN) and CMF.

Figure 15

Debt at risk

(probability of default, percent of GDP)

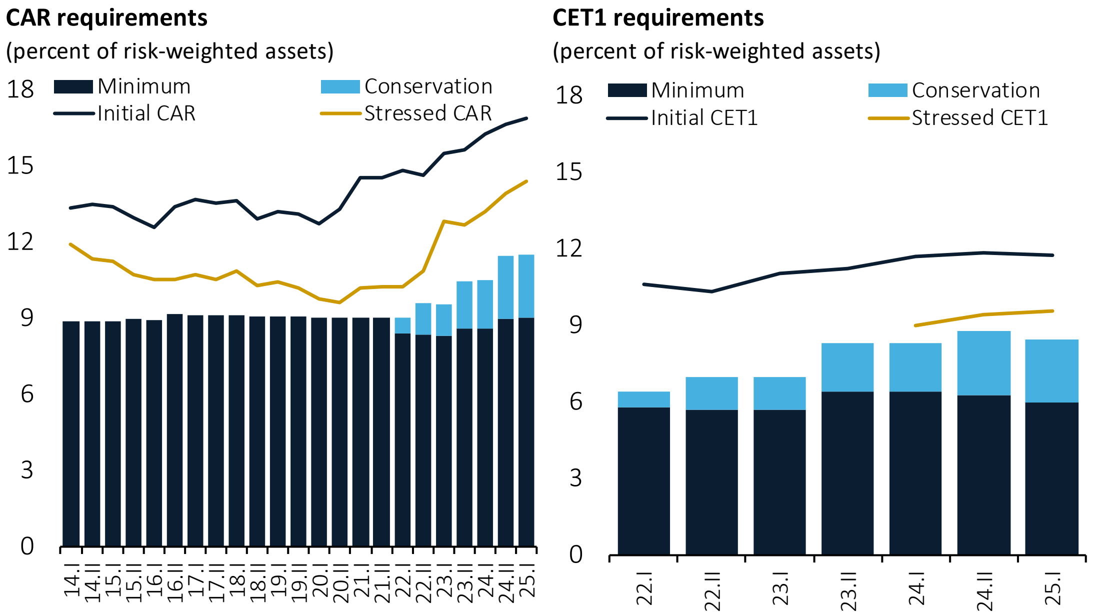


(1) Amount owed by each firm weighted by their individual probability of default in one year. (2) Amount owed by each person weighted by their individual probability of default in a stressed scenario within a one-year horizon. (3) Comparison only for reference purposes, due to changes in National Accounts that reviewed GDP, together with the application of a shock of greater magnitude since 2H2023.

Source: Central Bank of Chile based on information from CMF, Servel and SUSESO.

Figure 16

Results of the system in a severe scenario (*)



(*) Capital requirements are calculated as the weighted average of the particular limits of each bank. Second half-year tests consider limits as of December of each year. A stress scenario assumes the release of the Countercyclical Capital Buffer (requirement) in effect at each moment. Source: Central Bank of Chile using its own and CMF information.