



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 2026 can be visited at <http://www.bcentral.cl>.

Introduction

Mr President of the Finance Commission and members of the Commission.

Good morning. Before beginning my presentation of our Financial Stability Report (IEF), I would like to make a brief introduction about the objective and scope of this Report.

The Bank's Organic Constitutional Law entrusts us with two mandates. One is to safeguard monetary stability, in other words to control inflation. The other is to ensure the normal functioning of domestic and international payments, meaning to protect the stability of our financial system. We conduct the analysis related to the fulfillment of the first mandate through our Monetary Policy Report (IPoM), which we present in March, June, September, and December of each year. We conduct an analysis related to the fulfillment of the second mandate in our semiannual Financial Stability Report, which is published in May and November.

The objective of the IEF is to analyze the vulnerabilities, potential risks, and mitigating factors of our financial system, as well as its capacity to absorb severe shocks. Therefore, unlike the IPoM, it does not present projection scenarios but instead focuses on risk scenarios that, while less likely, are still possible.

This focus on risks—which inherently carries a negative bias and a tone of caution—may lead less familiar readers to perceive an overly adverse outlook. We want to make it clear that this is not our intention. Our goal is to explain how the Chilean economy in general, and the financial system in particular, are prepared to address severe scenarios.

It is also important to explain why ensuring the stability of the financial system is so important. I will start by explaining the concept of “financial system”. In simple terms, it is the set of institutions, markets, and instruments that allow savings from households and firms to be channeled into investment, ensure that payments are made smoothly, and allow households and businesses to access financing for everyday projects such as buying a home, investing, creating jobs, or dealing with unforeseen circumstances.

We speak of financial stability when this system performs these functions on a continuous and reliable basis, even in complex economic contexts, thereby contributing to growth, employment, and the general well-being of the people.

On the contrary, financial instability does not refer to normal price fluctuations or isolated episodes of volatility. It refers to disruptive situations in which the system cannot function properly. In such situations, access to credit by individuals and firms could be hindered, savings could be lost, or some of the payment methods we normally use might become unavailable. This, of course, would have adverse effects on employment, economic activity, and the well-being of the population. Hence the critical importance of safeguarding the stability of the financial system.

In Chile, financial stability is a shared responsibility. The Financial Market Commission (CMF) also plays a role in this area through ongoing supervision and oversight, as well as through the prudential regulations it issues.

The Central Bank focuses on the smooth functioning of the overall financial system, that is, from a macro-prudential perspective. This approach aims to anticipate any excessive accumulation of risks, strengthen the resilience of the financial system, and minimize the negative impact of financial crises on the broader economy.

The assessment of these factors is reflected in the IEF, which focuses on risks, vulnerabilities, and our capacity to address them. The document also details the actions taken by the Bank and other authorities to address vulnerabilities or promote the normal functioning of the financial system. Let me now turn to this Report's contents.

External vulnerabilities and financial markets

In recent months, developments in the global economic landscape have been dominated by the war in the Middle East. This conflict has caused significant concern, both because it involves a geographic region where a significant portion of the world's oil is produced and traded, and because of the importance of the countries involved.

We have observed the most immediate economic effects in the prices of oil and its derivatives, which have risen significantly and are affecting consumer prices and inflation in various economies, including Chile. All of this will be addressed in the Monetary Policy Report that we will present to this Commission in a month's time.

In the global financial markets, we have seen significant volatility linked to the unfolding conflict. That said, compared with its outbreak—in late February—stock

indexes have risen, the dollar has appreciated slightly, and long-term interest rates are up in several economies (Figure 1). Markets have evolved more favorably than might be expected given the risks involved. To some extent, this is consistent with the limited downward revisions to global economic growth that have been observed.

Overall, it is important to bear in mind that this conflict is unfolding against a backdrop of significant global financial vulnerabilities, which we have discussed in previous reports. These include the highly indebted governments in several developed economies and the elevated valuations of the riskier financial assets.

Regarding fiscal debt, concerns have long been raised about the indebtedness of certain developed economies. The war in the Middle East could exacerbate this situation. For one thing, it could further increase pressure for higher military spending, which in turn would push up debt levels and long-term interest rates (Figure 2).

Another key focus, frequently mentioned in financial stability reports from various developed economies, is the interaction between banks and nonbank financial intermediaries (NBFIs).

This concern is most prevalent in developed markets, where doubts persist regarding the growing importance of investment funds, particularly in the private credit segment. These doubts stem from the limited information available to regulators and the market regarding the quality of their loan portfolios and the extent of their interconnections with traditional banks. While the available information indicates that these vulnerabilities today do not pose a systemic risk to the global economy, it is important to continue monitoring them closely.

The progress of artificial intelligence has raised new concerns. One of these relates to the potential impact that advanced AI models could have on the cybersecurity of financial institutions and infrastructure. These tools can amplify the ability to identify and exploit vulnerabilities, increasing the risk of simultaneous incidents in interconnected systems. Cybersecurity has progressively taken on a systemic dimension, requiring strengthened resilience, oversight, and coordination among authorities and across the industry.

The local financial market

Turning to the recent history of our local financial market, it has followed developments in external markets, with no anomalies observed in price formation mechanisms (Figure 3). Meanwhile, private financing spreads over sovereign debt have returned to their historical averages, companies have continued to issue bonds, and equity valuation indicators show no major changes over the past six months.

In the domestic fixed-income market, we have seen changes in the relative share of different types of investors that could amplify the impact of potential large shocks. This is the case with non-residents, who have increased their share of the sovereign fixed-income market, contributing to its depth, but may also make the market more sensitive to external shocks. Meanwhile, local mutual funds have increased their holdings of bank bonds, which could affect the value of these instruments in the event of significant redemptions.

On the other hand, the pension funds' strategy of investing in derivatives could restrict the countercyclical role they have played in the domestic market in a scenario where they would face margin calls.^{1/}

These developments highlight the importance of initiatives aimed at deepening the domestic fixed-income market, strengthening the resilience of its participants, and reducing vulnerabilities. Contributing to this effort are, for example, the regulatory advances made by the Central Bank of Chile and the CMF, which are designed to strengthen the repo market. For its part, the regulation recently issued by the Superintendency of Pensions, which will take effect in 2027, is aimed at limiting pension funds' exposure to derivatives, and the amendment to the mutual fund liquidity regulations for General Fund Administrators announced in the CMF's work plan.

With regard to the pension reform, it is important that the transition to generational funds is conducted in an orderly manner to avoid disruptions in local financial markets. This will require making full use of the flexibility provided by the law. In this context, it is important to maintain continuous analysis and monitoring of this transition and its effects on the functioning of local financial markets.

¹ A margin call occurs as a result of changes in the market value of an outstanding derivatives contract. When that value becomes more negative for one of the parties, the counterparty requests that the party manage the trade deposit additional funds or assets into a margin account. If the party fails to do so, they may be forced to close the position and take the loss. Essentially, it is a mechanism designed to ensure compliance with the contract.

Situation of credit providers and users

Since the previous IEF, household financial vulnerabilities have remained contained. Firms show no substantial change and remain near their historical averages.

For households, net worth increased, aggregate debt decreased, and vulnerabilities remained low, with financial burden staying below the averages of recent years. As for the delinquency rate, it has stabilized for consumer loans, while it has risen for mortgages, although the trend has shown a slight reversal at the margin (Figure 4).

At the end of last year, aggregate corporate debt as a percentage of GDP had declined slightly since the previous Report, given the trend in GDP and the appreciation of the peso during that period. Nor were there significant changes in the firms' financial burden relative to corporate sales (Figure 5). However, it should be noted that the higher concentration of debt maturities in the coming years exposes local bond issuers to the risk of refinancing liabilities under unfavorable terms. On a different note, the real estate sector shows some improvement but remains weak, with high delinquency rates and a large stock of finished unsold housing units.

Stress tests for households and firms

For the IEF, we conduct stress tests that allow us to assess the economy's ability to withstand adverse scenarios. In these scenarios, we subject the economy to a significant shock across various macroeconomic and financial variables, including economic activity, inflation, employment, interest rates, and the exchange rate. Thus, the stress tests factor in declines in GDP and increases in unemployment of several percentage points, along with significant increases in interest rates of several percentage points, as well as depreciations of the peso and exchange rate volatility.

As I mentioned earlier, conducting these exercises does not mean that we consider them the most likely scenario. It means that we want to assess how prepared the economy is to deal with complex situations from a financial stability perspective.

In the stress test I will present now, we assess how household and corporate bank debt would behave in the face of the various types of shocks I just mentioned. We estimate the debt at risk, which corresponds to the portion of debt that would enter into default.

Under the stressed scenario, corporate debt at risk would reach 2% of GDP, a level similar to that reported in the previous IEF. This is so due to the offsetting effects of

two opposing factors: an increase in actual bank defaults between June and December, and a smaller impact from the sales shock. For households, debt at risk increases compared to the previous Report, mainly due to higher initial defaults associated with mortgage debt. For their part, the unemployment and interest rate shocks do not change significantly (Figure 6).

The government

Another key player among credit users is the government. As we have noted in previous reports, persistent fiscal deficits over several years have reduced fiscal headroom and driven up public debt.

In addition, the duration of government debt issues has shortened, much like what has happened globally. As a result, the Treasury must turn to the market more frequently to roll over its debt, which increases its exposure to changes in financial conditions.

Prudent management of the fiscal accounts is essential to maintaining adequate financing conditions for households and businesses, as well as to the economy's ability to mitigate the impact of shocks.

Banks

The banks' levels of profitability, capital, and liquidity ensure that they will remain solvent even under severely stressful conditions.

Although commercial debt defaults remain slightly above pre-pandemic levels, the banking system has safeguards in place in the form of loan loss reserves and collateral. Furthermore, their financial position remains favorable, with profitability around or above historical averages and liquidity levels above regulatory requirements. This has allowed them to strengthen their capital buffers and distribute dividends above historical averages (Figure 7).

With regard to stress tests, the results show that in a scenario where economic activity contracts sharply and funding costs rise significantly, banks maintain their capital levels above regulatory requirements under the most stringent Common Equity Tier 1 (CET1) capital ratio (Figure 8).

Having reviewed the state of our financial system's capacity to withstand a severe shock, it is important to note that the Chilean economy has robust financial

regulation and supervision standards. This includes tools for dealing with exceptional scenarios and coordination mechanisms among authorities and regulators. Furthermore, the banking system has reinforced its capital base, and its solvency ratios have increased consistently with Basel III standards.

Main risks

Let me now describe the main risks to financial stability both globally and locally.

Globally, risks to financial stability are elevated, considering that we are living under a highly uncertain international macroeconomic environment.

The main risk to global financial stability stems from a sharp deterioration of financial conditions. This could mean an increase in risk aversion driving demand toward more liquid financial assets. In such a case, funding costs would spike, currencies would depreciate and financing available for emerging economies would dwindle.

Such an episode could be triggered by a number of factors, the most significant being the possible escalation or prolongation of the war in the Middle East or a stronger impact on global growth and inflation.

Other potential triggers could include sudden shifts in the perceived benefits of AI or a more negative assessment of fiscal sustainability in developed economies. These adjustments could be amplified and transmitted through the interconnections among banks and non-bank financial intermediaries.

At home, the main risk to financial stability stems from the sudden deterioration of global financial conditions that I have just described. Such a scenario could trigger capital outflows, interest rate hikes, or exchange rate fluctuations, which would interact with the domestic financial vulnerabilities I have outlined before.

There could also be a significant downturn in local economic activity and employment, which would negatively impact borrowers' ability to repay their loans. Add to this the operational risks associated with the cybersecurity of financial institutions and infrastructures.

The Countercyclical Capital Buffer (CCyB)

The publication of the IEF follows the decision adopted by the Central Bank Board at its financial policy meeting. This meeting is held twice a year—in May and November—during which the level of the CCyB is determined.

This capital buffer is a macro-prudential tool designed to serve as a precautionary measure. Its objective is to enhance the resilience of the banking system, thereby helping to mitigate the impact of potential episodes of severe financial stress on credit, financial stability, and the economy at large.

In practice, the CCyB corresponds to a fraction of the banks' capital that is maintained available to be released in situations of severe financial stress, aimed at mitigating the procyclical behavior of the banks when faced with an adverse shock.

In simple terms, when the economic landscape is particularly complex, banks tend to tighten credit. In such situations, the Central Bank could release this portion of capital—the CCyB—either fully or partially. This means no longer requiring banks to maintain this portion of capital, thereby freeing up more resources for them to adjust their balance sheets in response to falling asset values. Thus, there would be no severe credit crunch amplifying the negative impacts of the shock on the economy. In other words, it is a tool that benefits individuals and businesses at a time when they would need to turn to the financial system the most.

In May 2023, the CCyB was activated for the first time, setting it at 0.5% of the banks' risk-weighted assets (RWAs).

In November 2024, the Central Bank defined and conveyed a neutral level for the CCyB —the NCCyB— equivalent to 1% of RWAs. This means that this buffer will stand at that level most of the time, subject to reductions in the conditions I just described.

In defining the neutral level, we considered the policy response needed to address a broad range of macro-financial stress scenarios; therefore, we expect increases in this requirement above that level to occur rarely.

Ever since then, it has been communicated that the convergence of the CCyB to its neutral level would be suspended until the legal implementation timeline for Basel III was completed, which occurred in December 2025. Therefore, starting with the first financial policy meeting of 2026, the possibility of initiating the convergence to its neutral level would be evaluated. This decision would be adopted as long as

macro-financial conditions permitted it, allowing for a period of at least one year for its implementation, thereby enabling proper planning by the banking sector.

In that context, at the financial policy meeting that concluded yesterday, Monday, the Board decided to raise the CCyB to its neutral level of 1% of RWAs, which will become effective in two years' time.

Based on the analysis contained in the IEF, which I have just presented to you, we estimate that the macro-financial conditions of the Chilean economy are consistent with beginning the CCyB's convergence to its neutral level.

On the one hand, local financial markets have been able to absorb the fluctuations associated with the greater international uncertainty stemming from the conflict in the Middle East without major disruptions. Furthermore, indicators of financial vulnerability for households and businesses remain low by historical standards.

Meanwhile, in the past few months, bank lending has continued to show signs of recovery, with positive growth rates across commercial, consumer, and mortgage loan portfolios, discounting the effects of exchange rate fluctuations.

Various sources, such as our Bank Lending Survey (ECB), our Business Perceptions Report, and internal estimates, indicate that the recent credit cycle has been driven by demand-side factors, in line with economic fundamentals, and with no evidence that bank capital constraints are restricting credit supply. In fact, the banking sector shows profitability indicators above or around their historical averages, which has enabled organic capital generation and higher dividend payouts. Along with this, the banks have access to stable sources of funding. At the same time, they have capital buffers that would allow them not only to weather a stress scenario but also to accommodate the convergence of the CCyB to its neutral level, maintaining a credit flow consistent with the economy's performance (Figure 9).

It should be noted that, like Chile, several economies have adopted a positive neutral level for the CCyB and are either already there or on track to reach it (Figure 10).

We believe that the high-risk global environment and increased international uncertainty underscore the importance of having a buffer of releasable capital. In this regard, setting the CCyB at its neutral level enhances the system's ability to withstand shocks. Releasing this capital in the event of severe financial stress would help mitigate its impact on the supply of credit to households and firms.

It is important to note that this additional requirement—equivalent to 0.5% of RWAs—can be fully covered by the system's buffers, which we estimate at 3.2% of RWAs. In other words, there is no impact on the capital available to support the credit policies previously planned by the banks. It could also be covered by a portion of dividend payouts, equivalent to 1.2% of RWAs.

All this is compounded by the fact that the two-year deadline set for establishing the additional CCyB provides banks with ample time for proper planning. In fact, this deadline is longer than the one imposed in May 2023. At that time, the increase in the CCyB from 0% to 0.5% of RWAs had to be completed within one year.

Concluding remarks

In closing, I would like to revisit an idea that has been a recurring theme in our recent presentations to this Commission:

Today we find ourselves facing an uncertain global landscape, marked by significant changes in areas that, until just a few years back, were not perceived as a source of uncertainty.

Among these, the fragmentation of international trade, geopolitical tensions, rapid technological advances, and demographic changes stand out. Each of these factors has significant implications for the global economy and for Chile. Taken together, they can give rise to complex scenarios.

Being a small, open economy, our country is vulnerable to these challenges. We are not immune to them, nor can we shield ourselves from them.

However, what we can and indeed must do is to adequately prepare ourselves to face adverse scenarios and mitigate their impacts. To that end, it is essential that we continue to strengthen our resilience.

How can we move forward in this direction? First, by continuously assessing the vulnerabilities, risks, and mitigating factors in our economy. In the case of the financial system—an essential pillar for the functioning of any economy—the IEF shows that we have the capacity to withstand shocks without compromising its stability. This should not lead to complacency, but rather to redoubling our efforts in monitoring and preparation, especially in such a changing environment.

Second, by strengthening macroprudential tools. The decision to begin the convergence of the CCyB to its neutral level of 1% is part of this effort. Having a capital buffer like this helps cushion the impact of potential crises and safeguard the flow of credit to individuals and firms.

Dear senators, we are living in a more uncertain and demanding environment that places greater demands on our capabilities. In this context, the Central Bank of Chile will continue to act prudently and in a timely manner, continuously monitoring risks and taking whatever measures are necessary to safeguard the stability of our economy and fulfill our mandate.

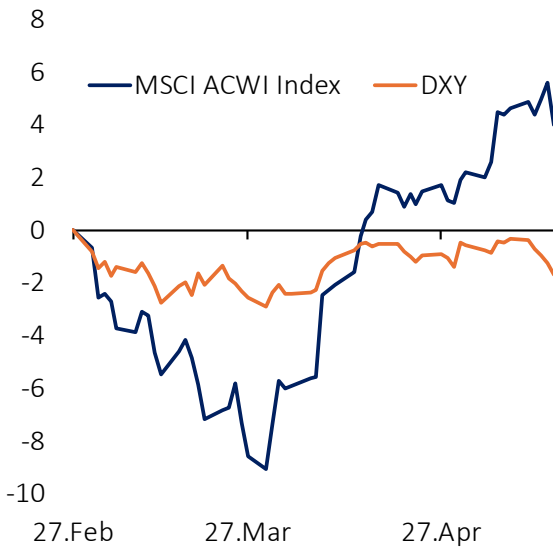
Thank you.

Figure 1

Financial markets' evolution since 27-Feb-2026

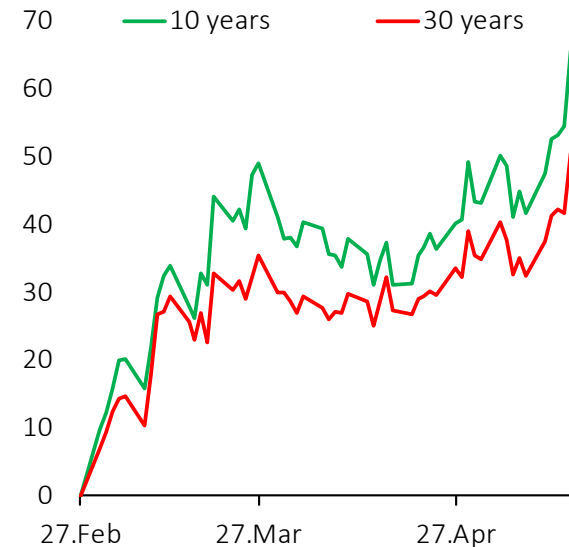
a) Stock market and DXY (1)

(change since 27-Feb., percentage points)



b) US nominal interest rates

(change since 27-Feb., basis points)



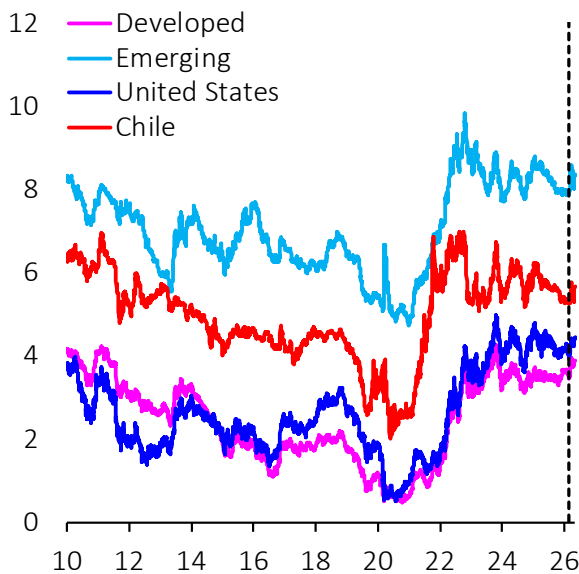
(1) An increase (decrease) in DXY shows depreciation (appreciation).

Source: Bloomberg.

Figure 2

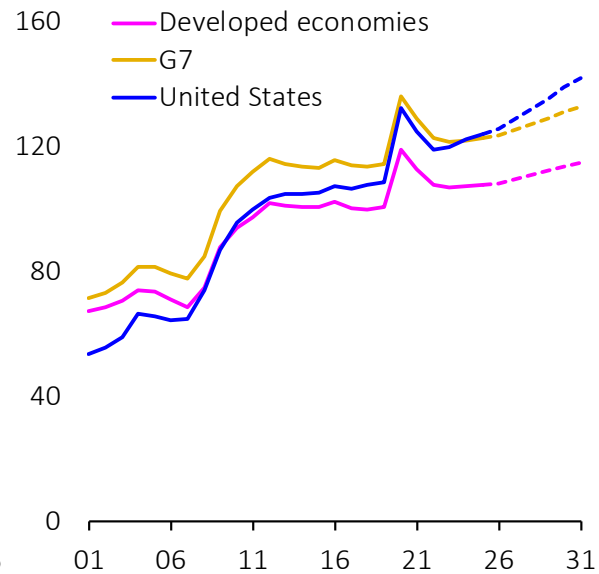
Sovereign 10-year rates (1)(2)

(percent)



Gross government debt (3)

(percentage of GDP)



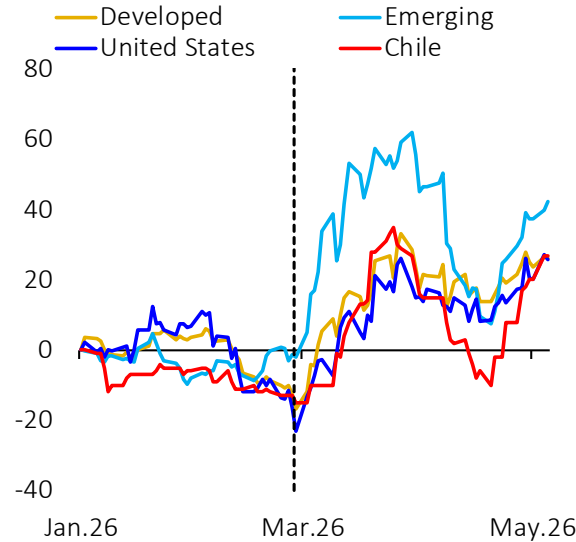
(1) Dashed vertical line indicates the outbreak of the war in the Middle East. (2) Emerging markets are defined as the average of the following countries: Brazil, Chile, Colombia, Hungary, India, Indonesia, Mexico, Peru, Poland, and South Africa. Developed stands for the average of Australia, Canada, Germany, Italy, New Zealand, Norway, Singapore, South Korea, Spain, Sweden, the United Kingdom, and the United States. (3) Developed economies stands for set of 41 economies defined by the IMF from 2001 to 2026.

Source: Central Bank of Chile based on information from Bloomberg and IMF's April 2026 WEO.

Figure 3

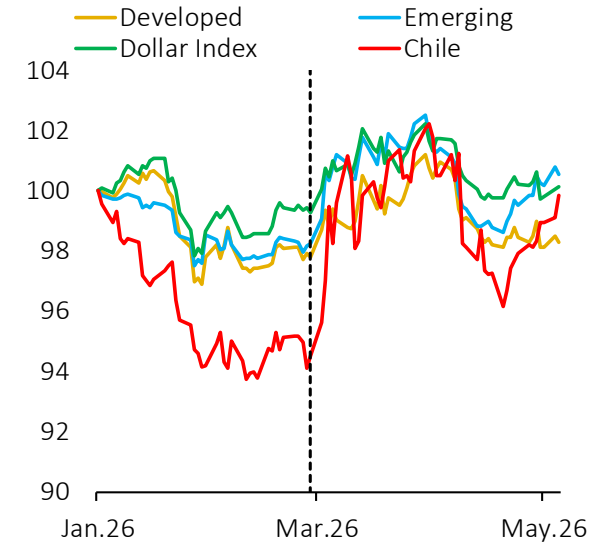
Evolution of 10-year interest rates (1)(2)

(cumulative change since 1.Jan.26, basis points)



Exchange rates (1)(2)(3)

(indice base 01.ene.26=100)



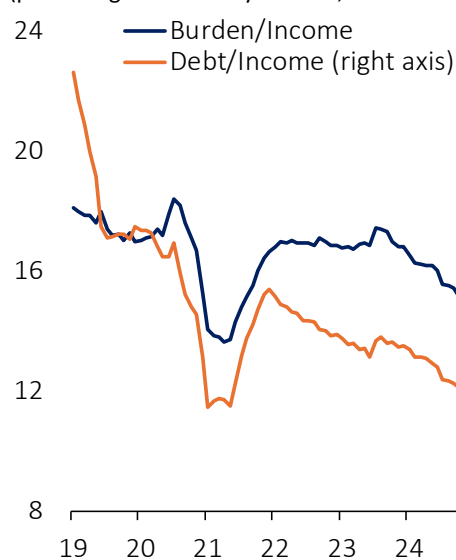
(1) Dashed vertical line indicates the outbreak of the war in the Middle East. (2) Emerging markets are defined as the average of the following countries: Brazil, Chile, Colombia, Hungary, India, Indonesia, Mexico, Peru, Poland, and South Africa. Developed stands for the average of Australia, Canada, Germany, Italy, New Zealand, Norway, Singapore, South Korea, Spain, Sweden, the United Kingdom, and the United States. (3) An increase (decrease) indicates a depreciation (appreciation) of the currency. In the case of the Dollar Index, an increase means an appreciation of the currency, and vice versa.

Source: Central Bank of Chile based on Bloomberg data.

Figure 4

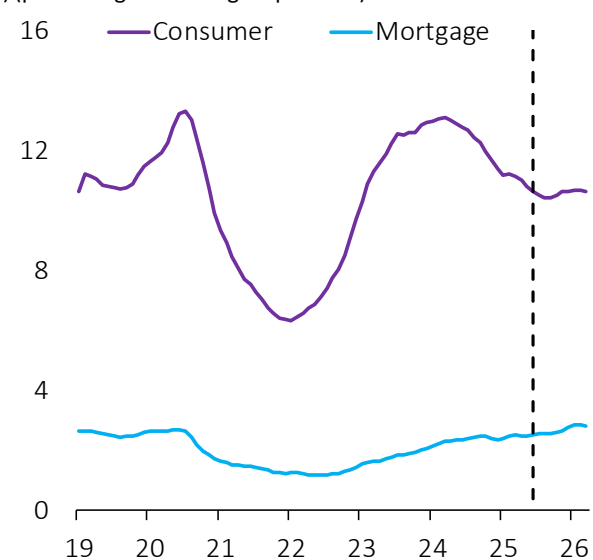
Financial burden and indebtedness (1)(2)

(percentage of monthly income; times monthly income) (percentage of each group's debt)



Unpaid credit index (1)

(percentage of each group's debt)

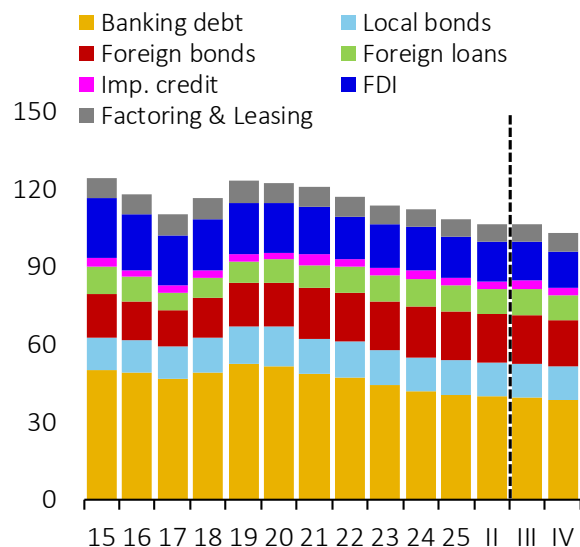


(1) Dashed vertical line marks statistical cutoff of previous IEF. (2) Quarterly moving averages and median for each series.

Figure 5

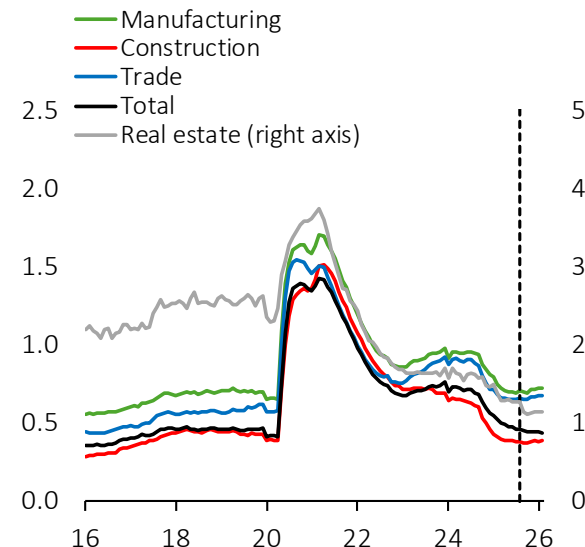
Debt of non-bank entities (1)(2)

(percentage of GDP)



Debt-to-sales ratio (1)(3)(4)

(times monthly sales)



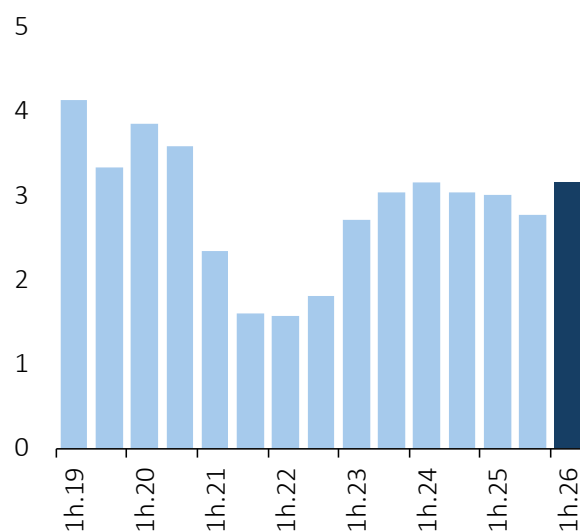
(1) Dashed vertical lines mark the close of second half 2025 IEF. (2) Based on firm-level information except for factoring, leasing and others, securitized bonds and commercial papers. (3) Moving quarterly averages and medians of each series. (4) Firms financed by local bank loans. Individuals not included.

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

Figure 6

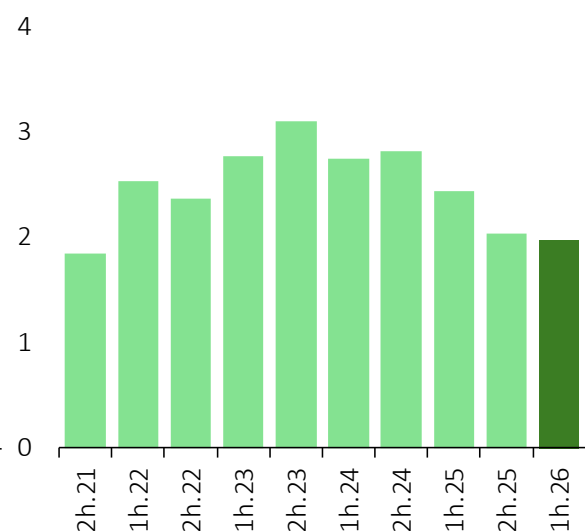
Households' debt at risk (1)

(percentage of GDP)



Firms' debt at risk (2)

(percentage of GDP)



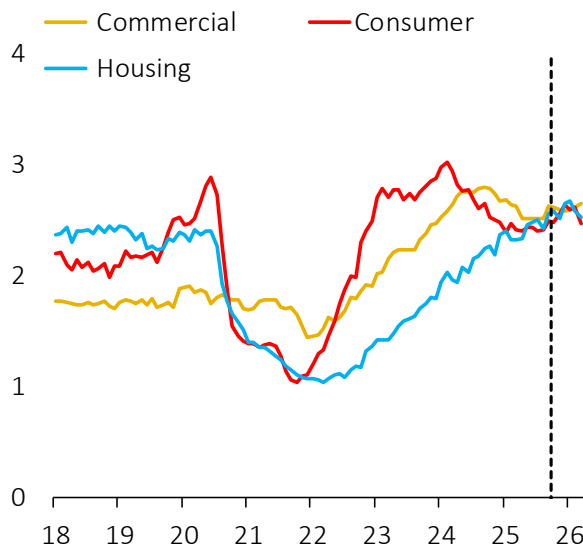
(1) Amount owed by each borrower, weighted by their individual probability of default under a one-year stress scenario. Due to a methodological change introduced in the first half of 2025, the results in the figure may differ from those published in previous IEFs. (2) Firms with local bank financing. Does not include loans to individuals. Shows the amount owed by each firm, weighted by its individual probability of defaulting within one year. Comparison is for reference only, resulting from changes in the National Accounts that revised GDP, along with the application of a greater shock starting in the second half of 2023.

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

Figure 7

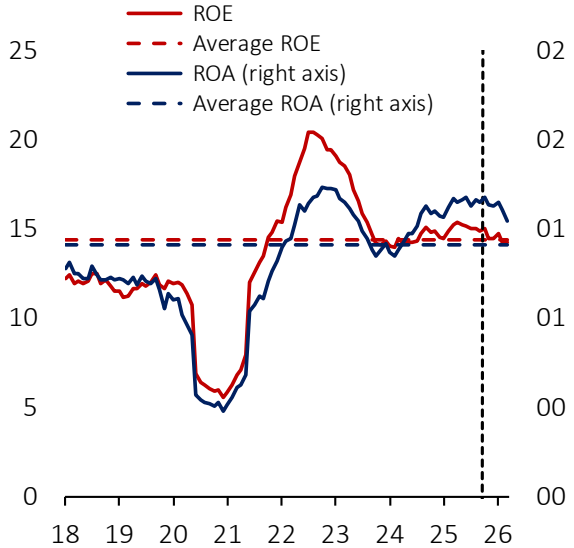
System delinquency index (1)(2)

(percentage of portfolio loans)



Profitability (1)(3)

(percent)



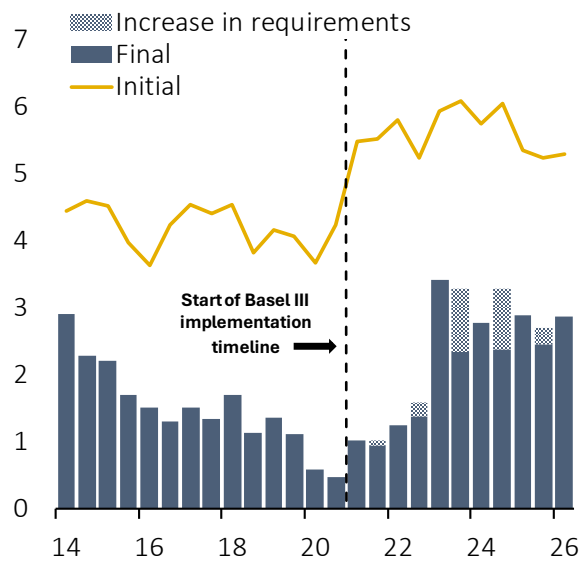
(1) Dashed vertical line shows previous IEF's year-end closing. (2) Delinquency refers to payments that are 90 days or more past due. Information based on locally consolidated financial statements. (3) Averages calculated from 2010 to date.

Source: Central Bank of Chile based on CMF data.

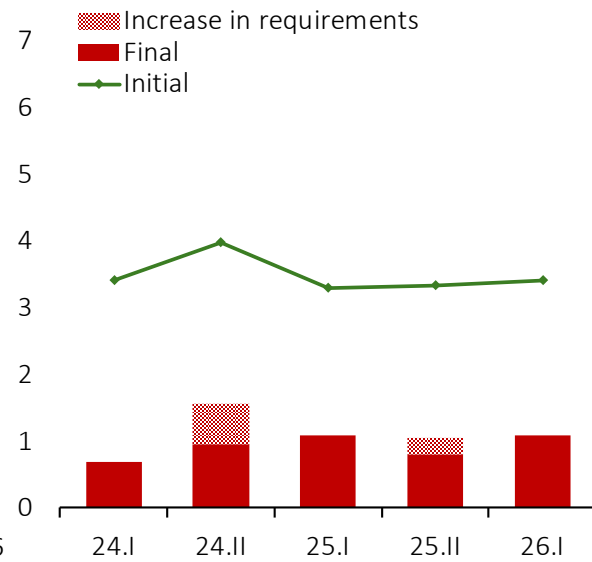
Figure 8
Capital buffers in a stressed scenario (1)

(percentage of RWAs)

a) Capital adequacy ratio, CAR



b) CET1



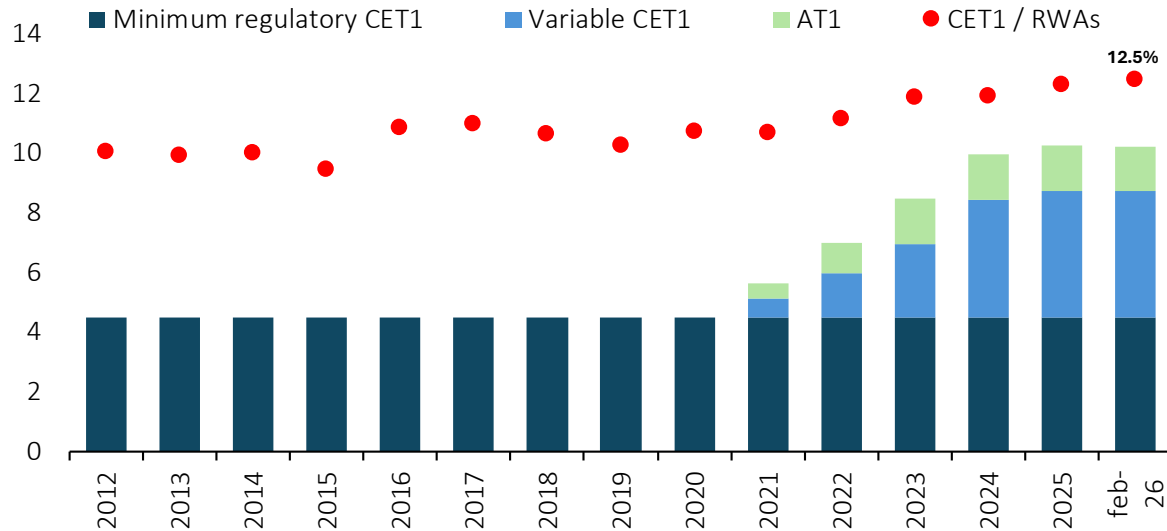
(1) Excess of actual capital (CAR) and Common Equity Tier 1 (CET1) capital over the regulatory minimum and buffers, respectively. Does not include the CCyB in the stress scenario. Considers the specific limits of each bank. For the IEF exercises in the second halves of 2021, 2022, 2023, 2024, and 2025, the solid bar shows final buffer against the limits in effect as of December of each year, in accordance with the Basel III phased implementation schedule, while textured bar uses limits in effect at June. The results starting in 2026 include the full implementation of final phase of the new Basel III capital requirements.

Source: Central Bank of Chile based on CMF data.

Figure 9

Banking system's capital and Basel III requirements according to Basel III standards (1)

(percent)



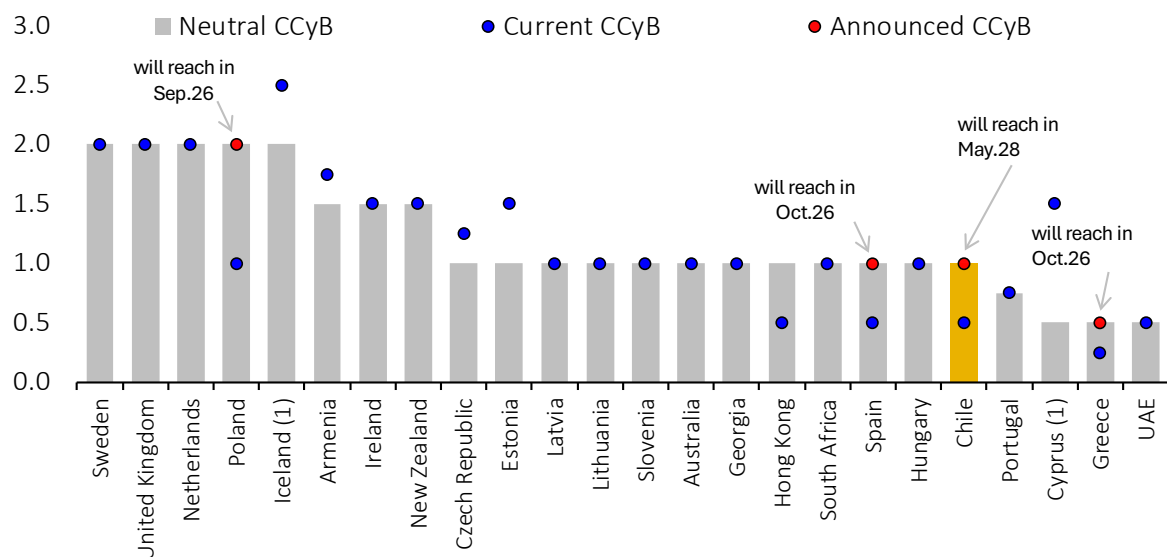
(1) CET1: Common Equity Tier 1. AT1: Additional Tier 1. RWAs: Risk-weighted assets. The minimum requirements of CET1 composed by AT1 of 1.5%; CET1 minimum of 4.5%; Variable CET1 made up of Pillar 2, Systemic Charge, CCoB and CCyB.

Source: Central Bank of Chile based on CMF data at December each year and February 2026.

Figure 10

Jurisdictions with defined positive neutral level and current CCyB charge

(percentage of RWAs)



(1) Iceland and Cyprus have set a neutral minimum CCyB rate of 2% and 0.5%, respectively.

Source: Central Bank of Chile, based on information from the BIS, the ESRB, and websites of CCyB authorities in each jurisdiction.