



The Chilean Banking System in a Global Environment*

José De Gregorio

Central Bank of Chile

March 2006

* Based on Betancour, De Gregorio and Jara (2005), "Improving the Banking System: The Chilean Experience", prepared for the BIS Meeting on "The Banking System in Emerging Economies: How much progress has been made?", Basel, December 2005.



Contents

1. The Chilean Banking System in an international perspective
2. The impact of Basel II
3. Concluding remarks



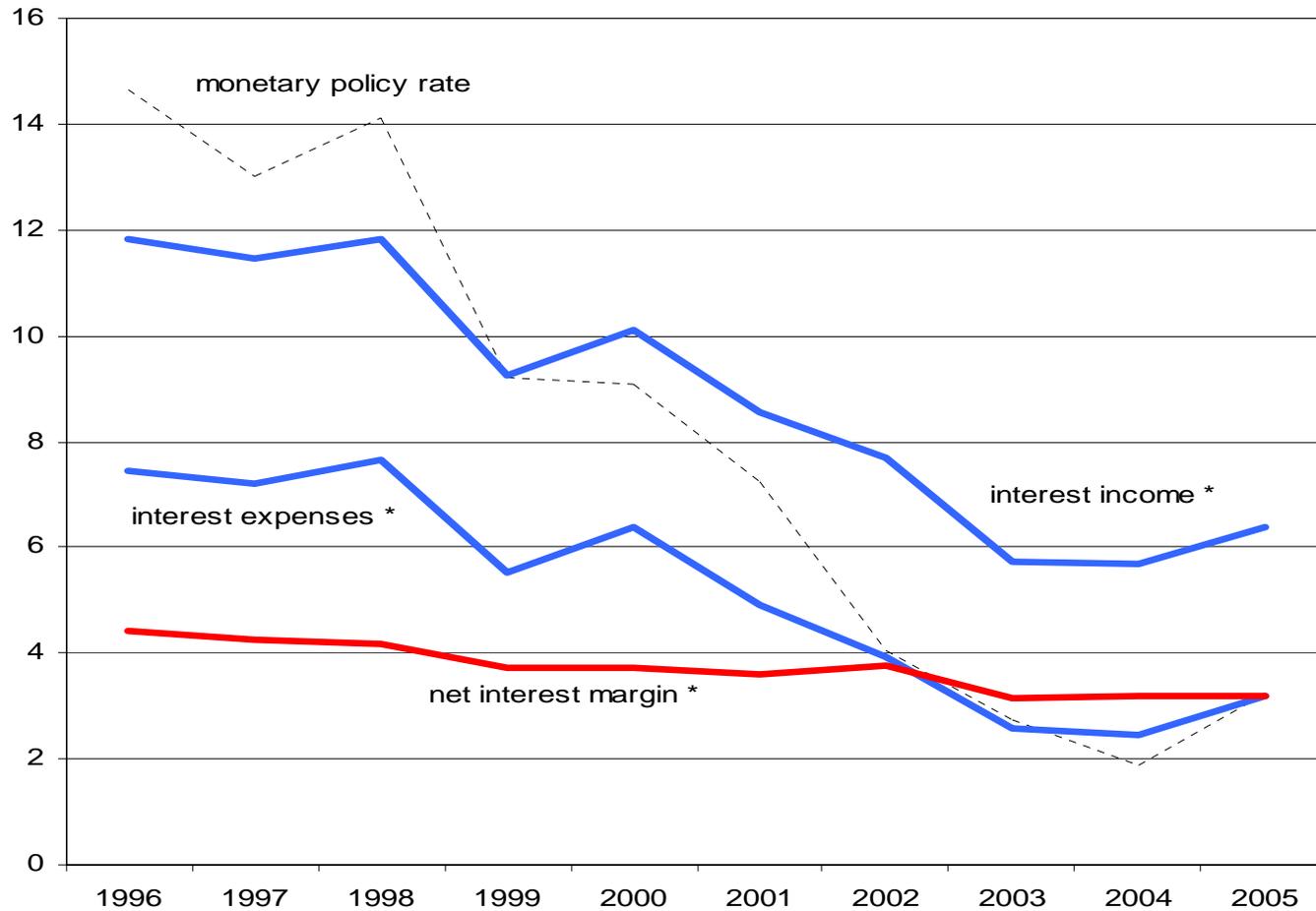
Structure of the Chilean Banking System

	Number		% total loans		% total deposits	
	1990	2005	1990	2005	1990	2005
Foreign banks	22	12	15.2	39.0	16.3	39.4
Local private banks	17	13	66.5	47.7	64.1	44.2
State-own bank	1	1	18.2	13.2	19.6	16.3

Source: Superintendencia of Banks and Financial Institutions



Monetary policy rate and bank's interest margin



Source: Superintendencia of Banks and Financial Institutions



Performance of banks

	Domestic				Foreign	
	Private		State-owned		1990-99	2000-05
	1990-99	2000-05	1990-99	2000-05		
Net interest margin (% total assets)	5.0	3.9	4.6	3.3	4.1	3.7
Overhead cost (% of total assets)	3.2	2.6	3.2	2.9	3.0	2.6
Overhead cost (% of net operational income)	55.2	52.8	62.3	65.8	62.0	51.5
Loan-loss provisions (% of total assets)	0.9	1.1	1.0	0.6	0.7	0.9
ROA	1.8	1.3	0.6	0.5	0.9	1.6
ROE	25.5	17.6	10.2	9.4	7.6	16.7
Capital adequacy ratio		12.2		12.2		16.0
Assets structure						
% Loans to total assets	72.8	76.1	58.2	32.5	60.3	68.3
% Household credit to total loans	17.8	20.7	36.5	45.5	18.4	27.0
% Consumer to total loans	7.5	8.4	4.0	7.1	8.0	9.6
% Mortgage to total loans	9.8	12.4	32.5	38.5	10.5	17.4

Source: Superintendencia of Banks and Financial Institutions



International Comparison

	Private Credit/GDP	Stock market capitalization/GDP	Turnover ratio	Private Bonds/GDP	Financial Strength Index
Latin America					
Argentina	12	62	6	10	0
Brazil	33	36	32	10	24
Chile	75	86	10	19	58
Mexico	18	18	21	3	42
Colombia	23	15	3	0	24
USA	174	118	121	113	77
Europe					
Italy	83	37	121	44	63
France	88	67	85	42	73
Germany	117	37	129	43	47
Spain	111	71	157	24	77
Czech Rep	30	18	52	7	41
Poland	28	15	27	n/a	31
Asia					
Japan	105	60	87	44	21
Korea	120	48	235	50	18
Malaysia	132	141	34	53	35
Philippines	35	40	9	0	19

Source: World Bank, Moody's



New Forms of Risk

1. Contagion through the payment system
2. Increased uses of derivatives
3. Risks transfers
4. Managing liquidity risk



Impact of Basel II: Capital Requirements

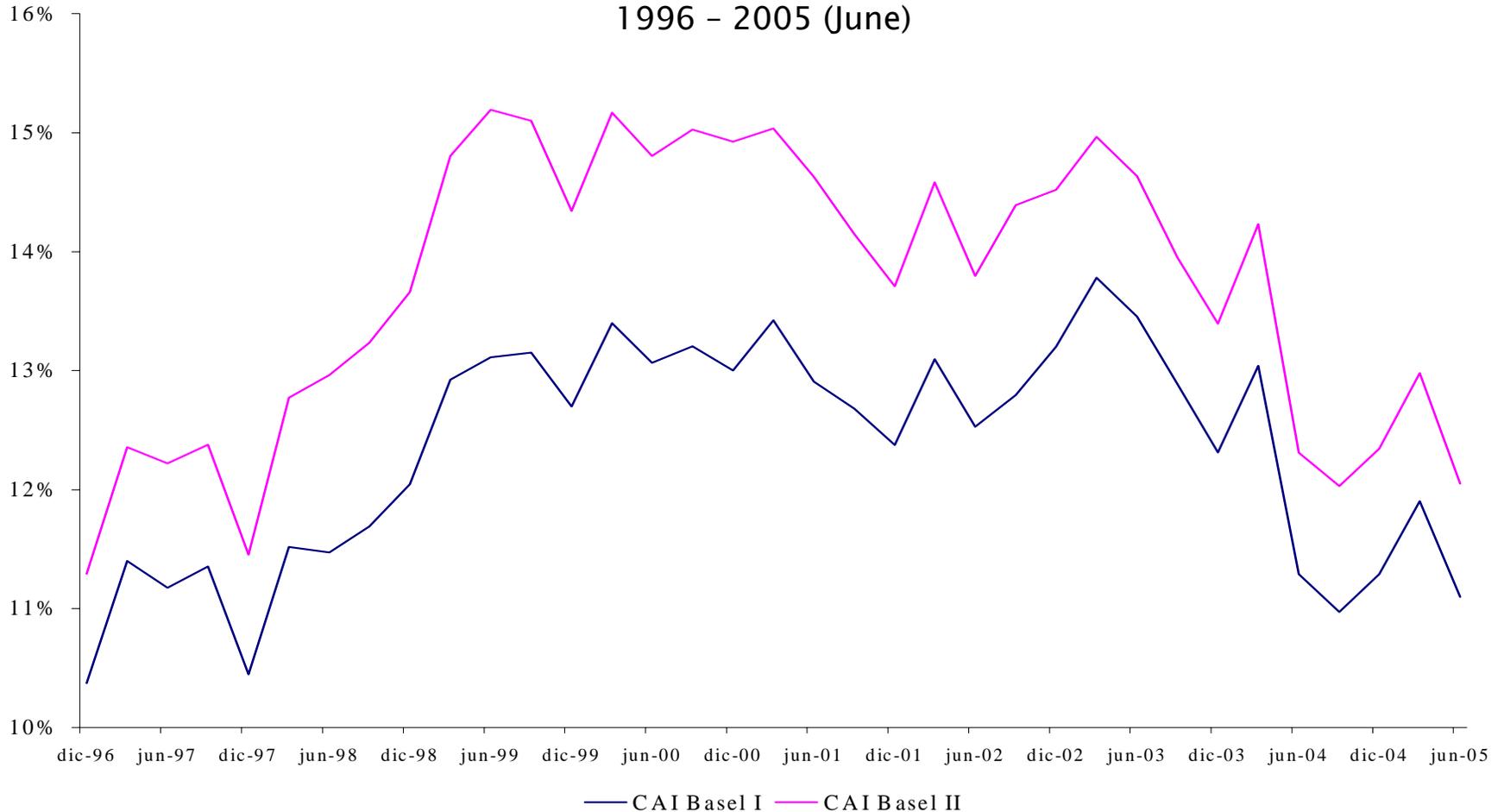
- Capital requirements depend on:
 - New weights for the different types of credit
 - Structure of assets
 - Operational risk charges



Impact of Basel II: Capital Requirements

Capital Adequacy Index

1996 - 2005 (June)





Impact of Basel II: Capital Requirements

	LRM*	Credit Risk Impact (%)	Operational Risk Impact (%)	Global Impact (%)
Established banks in Chile	7	-13.4	10.2	-3.2
Foreign banks' branches	-	-11.6	12.6	1.0
Total banking system	7	-13.3	10.3	-2.9

* Lending risks mitigators

Source: Held et al. (2004)



Impact of Basel II: Capital Requirements

Special considerations for implementing the new accord in LA countries

- Rating business is less developed
- Lack of adequate information to the banks
- Need to strengthen regulation



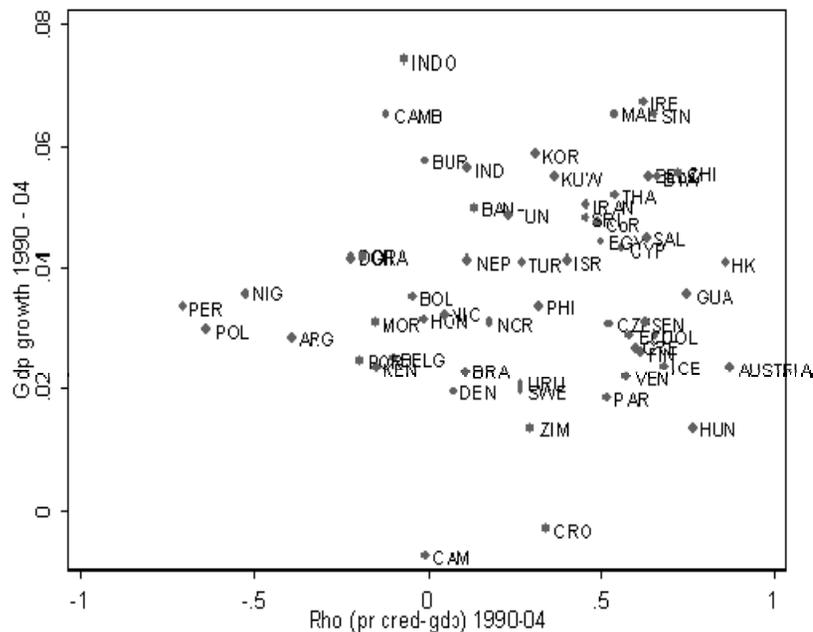
Impact of Basel II: Procyclicality

- Credit market affects procyclicality because loans are reduced during recessions
- There is low correlation between procyclicality and economic performance
- If any, there is a correlation with deepness of the banking system

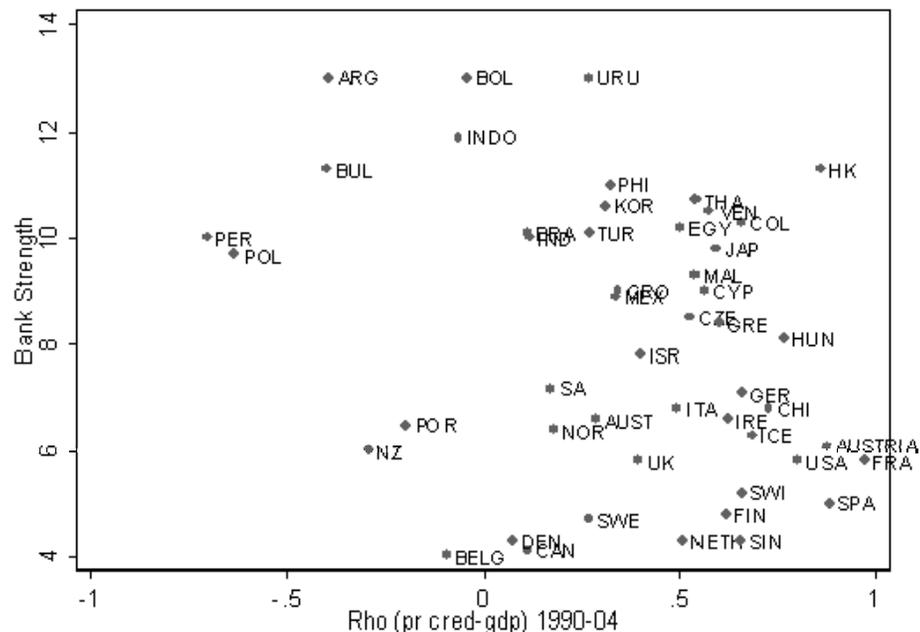


Impact of Basel II: Procyclicality

Procyclicality and Growth



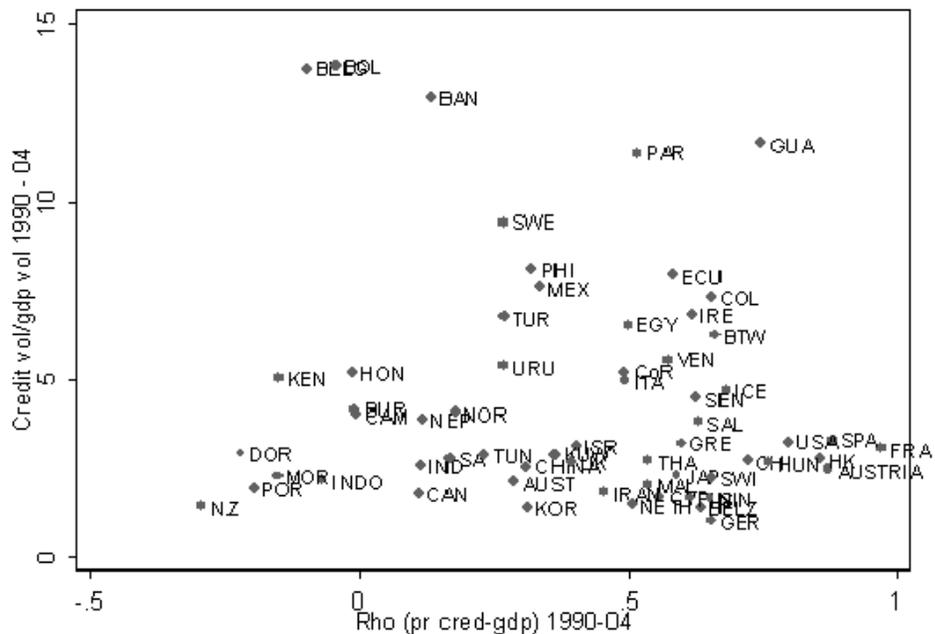
Procyclicality and Bank Strength



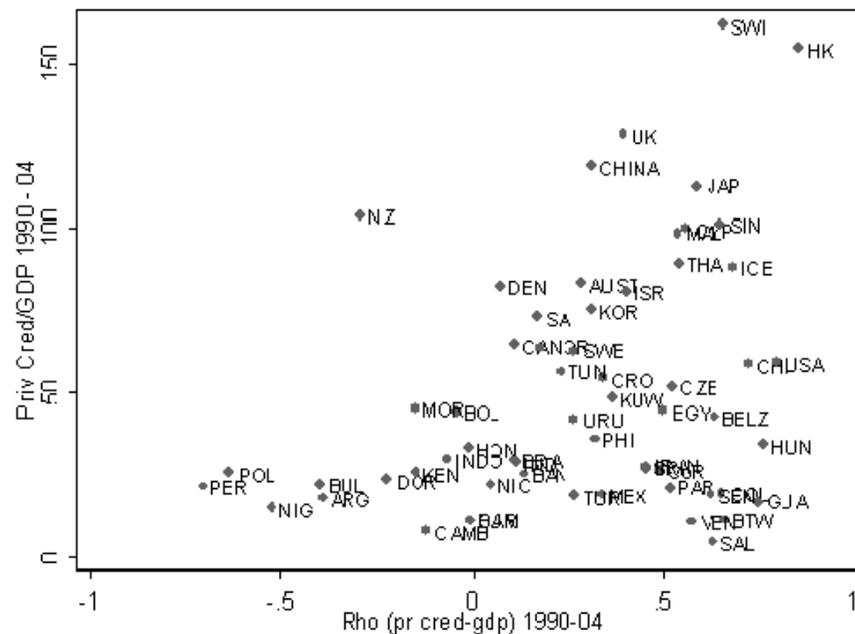


Impact of Basel II: Procyclicality

Volatility and Procyclicality in the Credit Market



Procyclicality and Deepness of the Banking System





Concluding Remarks

- Capital requirements are reduced under Basel II.
- Consequently, it is not clear that procyclicality should increase if capital requirements are binding.
- Chilean Banking System is on a solid ground to follow a gradual implementation of Basel II.



The Chilean Banking System in a Global Environment*

José De Gregorio

Central Bank of Chile

March 2006

* Based on Betancour, De Gregorio and Jara (2005), "Improving the Banking System: The Chilean Experience", prepared for the BIS Meeting on "The Banking System in Emerging Economies: How much progress has been made?", Basel, December 2005.