banco central Chile

Financial Policy Meeting Statement

Tuesday, 19 November 2024

Financial Policy Meeting – second half 2024

At today's Financial Policy Meeting, the Board of the Central Bank of Chile decided to maintain the Counter-cyclical Capital Buffer (CCyB) at the level of 0.5% of risk-weighted assets. The decision was adopted by the unanimous vote of the Board members.

The external scenario continues to be the main source of risks for Chile's financial stability. Despite that the United States started its monetary policy normalization cycle, there has been a rise in uncertainty associated to global geopolitical tensions and the reach and impact of potential economic and commercial policies. There are other threats, including persistently high long-term interest rates, high sovereign and corporate debt, while the valuation of financial assets remains high. All of which contributes to maintaining the risk of a deterioration in financial conditions in emerging economies.

At the local level, the MPR cuts have been transmitted to short-term market rates, thus contributing to a favorable evolution of households' and firms' financial indicators. Long-term rates remain elevated, influenced by both external markets' conditions and the shallower local capital market. Meanwhile, there is an ongoing process of recovering businesses' financial indicators, with heterogeneity and lags in the smaller ones, in real estate, construction and commerce firms, plus those that obtained Fogape loans during the pandemic. Delinquency rates have increased considering this context. The financial situation of households has also improved gradually, with lower financial burdens, although their net financial position has yet to match pre-pandemic levels.

Aggregate bank credit remains weak, mainly explained by demand-side factors, in a context where lending rates have adjusted downwards, in line with benchmark rates. Commercial and consumer loans continue to contract, but new loan flows have stabilized, while housing credit growth continues to decelerate.

Local banks have continued to manage the increase in credit risk and have sufficient provisions and capital to withstand adverse events. The banking system has strengthened its capital base in the process of implementing Basel III requirements and has capital buffers that contribute to increasing resilience to sustain credit provisioning in the event that systemic risks materialize. Among the challenges ahead, it must continue to manage the increase in credit risk in its portfolio and continue to prepare for the full convergence to Basel III.

The Board has decided to maintain the CCyB at a level 0.5% of risk-weighted assets. This level is estimated by factoring in the macro-financial and risk-related conditions facing the financial system, which are analyzed in detail in our Financial Stability Report for the second half of 2024. This risk context highlights the importance of having a capital buffer previously built up by the banks, which would improve their capacity to face shocks, and which could be released upon the occurrence of a financial stress event, thus helping to mitigate its impact on the provision of credit to households and firms.

The minutes of this Financial Policy Meeting will be published at 8:30 hours of Wednesday, 4 December. The next meeting will take place on 15-16 May 2025 and the statement thereof will be released at 18:00 hours of the second day. For more details on the Counter-cyclical Capital Buffer, click here Link