Press Release

Tuesday, 7 November 2023

Financial Policy Meeting – second half 2023

At today's Financial Policy Meeting, the Board of the Central Bank of Chile decided to maintain the Counter-cyclical Capital Buffer at 0.5% of risk-weighted assets, which will be enforceable as from May 2024. The decision was adopted by the unanimous vote of the Board members.

After the previous Financial Policy Meeting ─in May 2023─, external risks have increased. This has been associated with the tightening and volatility of global financial conditions and escalating geopolitical tensions. Short- and long-term interest rates have risen substantially, responding to a number of factors, such as the U.S. re-accelerating economy and inflation, concerns about the U.S. fiscal situation and prospects of a tighter savings/investment equilibrium. The advanced economies continue to apply a contractionary monetary policy, with the objective of ensuring inflationary convergence, which would accentuate the difference between the monetary policies of developed and emerging countries. Although there have not been new tensions in the developed world's financial systems like they had early in the year, vulnerabilities persist in some segments of regional banks in the United States and in non-bank financial intermediaries.

At home, there has been significant progress in the resolution of macroeconomic imbalances, where a fall in corporate debt and a normalization of financial indicators of households and firms stand out. Private consumption has further adjusted downward, fiscal indebtedness tended to stabilize and the current-account deficit continued to decline. Short-term interest rates have adjusted in line with a less contractionary monetary policy, while long-term credit costs have evolved according to international macro-financial developments. This has translated in higher rates on bonds—both corporate and sovereign— and has recently affected longer-term credits, like mortgage loans.

Regarding bank credit, lending rates continue to be negative in annual terms, consistent with the macroeconomic cycle. The Bank Lending Survey for the third quarter of 2023 reports no big variation in lending conditions for large-scale companies, but continues to tighten for SMEs, while demand remains weak. Non-performing consumer and commercial credit has generally been stable, although somewhat above its historical patterns, which has prompted banks to accumulate provisions.

Stress-tests in the banking system which will be contained in the Financial Stability Report to be published tomorrow morning, show that the banking industry has sufficient levels of provisions and capital to withstand a severe stress scenario. Nonetheless, similarly to all other economic agents, it is important for it to continue to strengthen its capacities to deal with possible adverse events and future challenges, such as the end of pandemic-related support policies, increased credit risk and convergence to Basel III.gg

The Board has decided to maintain the CCyB at a level of 0.5% of risk-weighted assets, which will be enforceable beginning May next year. As was the case last May, when the Buffer was activated, maintaining it is adopted as a precautionary measure in view of the high external uncertainty, while locally the process of resolving macroeconomic imbalances goes on. The increase in external risks keeps latent the possibility of an extreme adverse event, that would imply a considerable drop in credit. Having a previously established capital buffer that can be released upon the occurrence of such a circumstance, would help mitigate the impacts 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 22 November. The next Financial Policy Meeting will be held on 3 May and 6 May 2024 and the statement thereof will be released at 18:00 hours of the second day. For more details on the Countercyclical Capital Buffer, log on to the following link.