

Tuesday, 17 May 2022

Financial Policy Meeting – First half 2022

At its Financial Policy Meeting, the Board of the Central Bank of Chile decided not to activate the Countercyclical Capital Buffer. The decision was adopted by the unanimous vote of all Board members.

The Financial Policy Meeting is the occasion in which the Board of the Central Bank of Chile makes a decision concerning the Countercyclical Capital Buffer (CCyB) within the framework of the new Basel III banking capital standards, in accordance with the provisions in article 66 ter of the General Banking Law. The CCyB is a macroprudential requirement on the banking system whose objective is to enhance the resilience of said system when faced with severe stress scenarios originating in risks of a systemic nature.

Externally, in an environment of high global uncertainty, central banks are making monetary adjustments to respond to more persistent inflationary processes. The conflict in Ukraine and the bottlenecks associated with the Covid-19 pandemic have contributed to exacerbate supply-side pressures. All this has resulted in tighter financial conditions.

Locally, the economy has been above its potential since the second half of 2021. The resulting inflationary effects have been exacerbated by the external scenario, which adds strong pressures on prices. In this context, the Board has adjusted the Monetary Policy Rate placing it in a contractionary stance.

As of March 2022, bank credit has continued to slow and its ratio over GDP is below its historical trend. The first-quarter Bank Credit Survey shows that demand remains weak and supply conditions have continued to tighten since last year. Meanwhile, the banking sector presents adequate liquidity indicators and is solvent, with the capacity to continue providing credit.

The evolution of the various financial indicators analyzed does not point to vulnerabilities that could amplify systemic risks. Going forward, the economy is expected to continue its process of adjustment to a less favorable international scenario, which would imply a slower pace of credit activity and an increase in delinquency, which would approach its pre-pandemic levels.

The stress tests presented in the Financial Stability Report indicate that the banking system has sufficient provisions and capital to address severe scenarios. Moreover, capital levels will continue to adjust in line with the implementation of Basel III standards.

Summing up, the analysis performed does not suggest that the conditions for activating the Countercyclical Capital Requirement are present.

The minutes of this Financial Policy Meeting will be published at 8:30 hours of Wednesday 1 June. The next Financial Policy Meeting will take place in November 2022.