BOX I.3:

Recent evolution of commercial credit

In the last year, the MPR has been lowered by 550 basis points, significantly reducing the restrictive stance of monetary policy. This lower MPR has been passed on to short-term bank lending rates, for loans to both firms and individuals (Chapter I, figure I.16). Nevertheless, the stock of commercial and consumer bank loans continues to show negative annual variation rates, although smaller than those observed a few quarters ago. This box presents additional background on the evolution of commercial bank credit and seeks to determine whether its evolution is consistent with the macroeconomic framework or whether, on the contrary, it would be contributing to amplify the cycle beyond the other Chile's economic fundamentals.

The current credit performance comes in a context in which, according to various sources, unfavorable supply and demand conditions are perceived. On the one hand, the Central Bank's Bank Lending Survey showed a tightening of lending conditions for several consecutive quarters, in the face of a weakening demand. The latest survey, for the first quarter of 2024, shows that commercial credit supply factors are perceived to be similar to those of the previous quarter[1]/, even though commercial credit rates have decreased as expected, following the MPR cuts (figure I.20a). On the other hand, demand factors weakened again, particularly due to lower investment. The May Business Perceptions Report paints a similar picture. The firms interviewed report that credit granting conditions are tight, although they have not deteriorated at the margin, and that their willingness to take on more debt is low.

However, to assess whether this information is consistent with the macroeconomic cycle, it is necessary to consider that the credit cycle in recent years has exhibited several peculiarities. First, as a result of the liquidity and credit support measures deployed during the Covid-19 crisis, commercial credit in Chile grew strongly in 2020-2021 (figure I.20b)[2]/. After that, the Chilean economy suffered a sharp inflationary process, where demand stimulus policies made a significant contribution. This prompted the Central Bank to rapidly raise the MPR, which was passed on to commercial credit interest rates, and was accompanied by a significant credit contraction, consistent with the conditions that were necessary for domestic spending to adjust and for inflation to converge to the 3% target in the two-year horizon (figure I.20a). Therefore, the current behavior of commercial credit should be evaluated in the context of a strong expansion in the first stages of the pandemic, followed by the contraction that was required in the process of adjusting spending and convergence of inflation to the target.

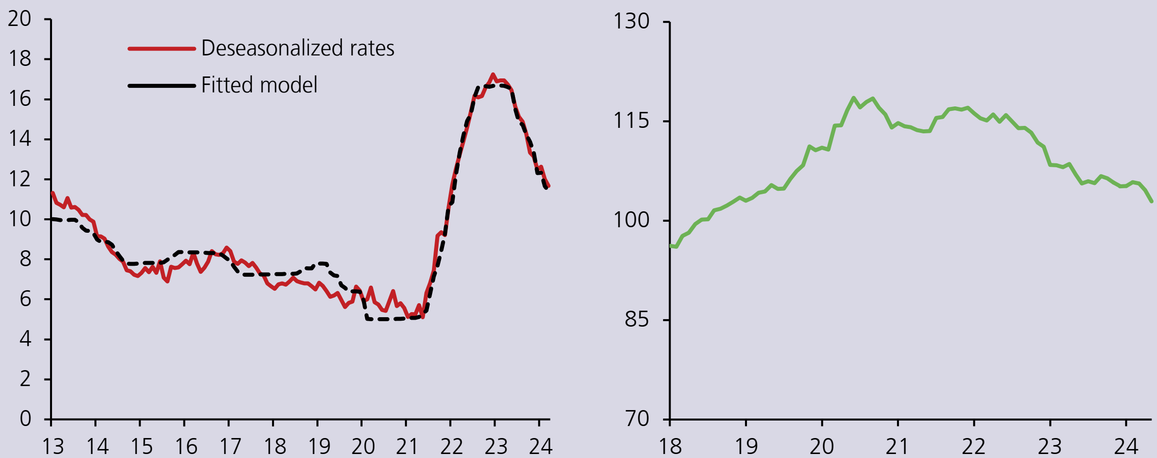
[1]/ See Financial Stability Report (IEF), first half 2024.

[2]/ The increase in commercial credit during the Covid-19 crisis implied a substantial difference with respect to other crises, giving credit an important countercyclical role. See Box I.1 in September 2020 IPoM and Financial Economic Series of March 2023 for more details.

FIGURE I.20

a) Interest rates con commercial loans (1)
(percent)

b) Real commercial loans (2)
(index, 2018=100)



(1) Commercial rates in pesos, including installments and revolving. Information as of 31 May, 2024. Data adjusted for composition effects: currency, amount, term, product. Seasonally adjusted rates using CENSUS X-12 and national calendar. National coverage (D32-33). Independent variables: SPC2 and MPR. (2) Accounting data up to April 2024. Data as of May 2024 based on files of the Monetary Information System (SIM01) based on stock in UFs. Excludes foreign trade.
Source: Central Bank of Chile based on Financial Market Commission (CMF) data.

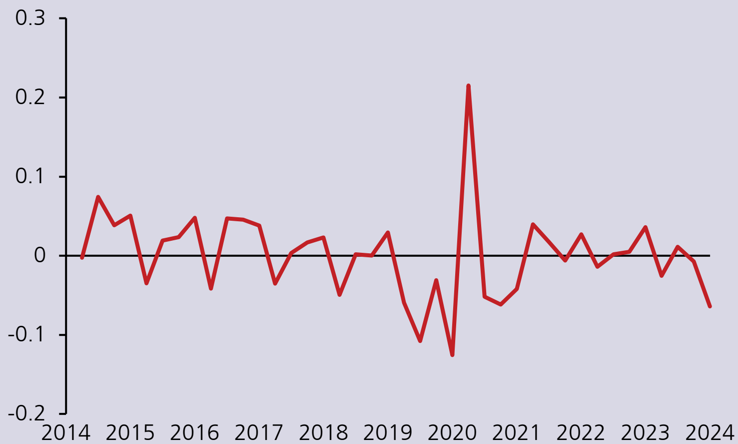
For a quantitative assessment of the consistency between commercial credit and the evolution of other macroeconomic variables, Bauducco *et al.* (2024) present evidence from individual information on the firms' bank debt and their performances, and from aggregate variables such as activity, expectations, non-performing debt and MPR for the period 2014.Q2-2024.Q1. The study seeks to explain the quarterly change in debt at the firm level using indicators of their performance such as changes in sales, employment and investment, as well as aggregate variables. Figure I.21 shows the average prediction errors, or residuals of this relationship, on a quarter-by-quarter basis. Significantly negative values would indicate that credit is unusually low, and vice-versa. The average residual of this regression is found to be close to zero until the first quarter of 2020, showing that corporate debt does not deviate from what would be expected given their performance and the business cycle. In 2020 the residual grew strongly, coinciding with the stimulus policies that encouraged companies to take on debt in response to the slump in activity. From 2022 onwards, this average residual returned to values around zero, suggesting that credit growth is in line with the performance of businesses and the behavior of the economy[3]/. Moreover, this result coincides with that obtained from a shock decomposition based on a structural model that incorporates a financial sector[4]/.

It is important to note that in the first quarter of 2024 (last point of the series) the average residual shows a negative value, suggesting a slower than expected credit growth for that quarter given the determinants considered. Considering the time variability of the average residuals, caution is recommended when interpreting the results of the last quarter and to continue monitoring the connection between credit and its determinants.

[3]/ For details, see Bauducco *et.al* (2024).

[4]/ See DTBC No.953 for a detailed description of the model.

FIGURE I.21 AVERAGE RESIDUALS OF FIRM-LEVEL REGRESSION OF COMMERCIAL CREDIT GROWTH ON VARIOUS DETERMINANTS
(variation rate)



Source: Bauducco *et al.* (2024).

Conclusions

Corporate credit activity has evolved in line with prevailing macroeconomic conditions. Evidence based on anonymized administrative microdata suggests that the evolution of commercial credit is driven by both corporate demand factors and macroeconomic factors, that is, activity, growth expectations and the MPR. However, recent data on commercial credit may indicate a further slowdown in the current quarter and call for some caution. The Central Bank will continue to closely monitor this and other financial variables.