BOX I.2:

International evolution of commercial credit

In recent years, bank lending to firms in Chile has been weak. Previous analyses suggest that this component of credit has evolved in line with the performance of the local economy, with no significant signs of deterioration beyond what can be expected, although further weakening could be a warning sign[1]/. This box adds an international perspective, that analyzes the importance of global and idiosyncratic factors in the evolution of commercial credit.

Analysis of global and idiosyncratic factors

There is extensive literature analyzing the importance of global elements in the evolution of domestic credit. This responds to the correlation between local macroeconomic dynamics and interest rates, both because of the commercial and financial interconnection among economies and because of the relevance of certain economies whose macroeconomic and financial conditions are transferred to the rest of the world as, for example, the United States. In general, the empirical results suggest that global factors have considerable effects on local credit dynamics[2]/. Unlike other studies, this box focuses on total credit to firms (rather than total credit to the private sector, or external credit) and analyzes in more detail the case of Chile. The data used are taken from the BIS quarterly database of total (not only banking) credit to private non-financial firms[3]/ for the period 2000-2023.

Two observations need special mention from the analysis of the data. First, in the pandemic period, active policies triggered a significant expansion of credit worldwide. Chile stands out as one of the countries with the fastest growth during that period. Second, the weakness of credit in recent years has been a global phenomenon, and the case of Chile does not look particularly different from the rest of the world. At the end of the pandemic, credit in Chile moderated more than in other countries, but is still above the median of them (figures I.19a and I.19b).

Gonzalez *et al.* (2024) review the importance of global and idiosyncratic factors through two methodologies. A panel estimation with country- and time-fixed effects and an estimation using a dynamic factor model. Both yield similar results and suggest that, broadly speaking, the low dynamism of commercial credit in Chile would be in line with global dynamics. The latter is explained by the high levels of international interest rates, the consequent macroeconomic weakness following the previous expansion cycle, and compensatory effects after the strong expansion of credit during the pandemic.

This latter factor is relevant for Chile. Active policies during the pandemic, which far exceeded the impulses provided by other countries (see Box V.I in September 2021 IPoM and Calani *et al.* (2021)), caused a higher-than-average increase in commercial credit, which tended to expand it beyond its fundamentals. On the flip side, from 2021 onwards, credit showed a significant drop, due not only to the offsetting of the previous expansion, but probably to the additional liquidity injection measures, which improved the firms' cash flows and reduced their funding needs. By the end of 2023, the level of commercial credit as a percent of GDP regained its pre-pandemic levels and was above the median for other countries.

1/ See, for example, Box I.3 in June 2024 IPoM and Box III.1 in May 2024 Financial Stability Report (IEF).

2/ See, for example, Iñaki *et.al.* (2023), Miranda-Agrippino and Rey (2020), Brauning and Ivashina (2020), and Banco de España (2024).

3/ For the case of Chile, the data include local bank credit, local bonds, FDI, external bonds and loans, import credits, and factoring and leasing operations. Given the structural differences in the use of financing sources around the world, the comparison should be made with total credit to firms, not only bank credit.

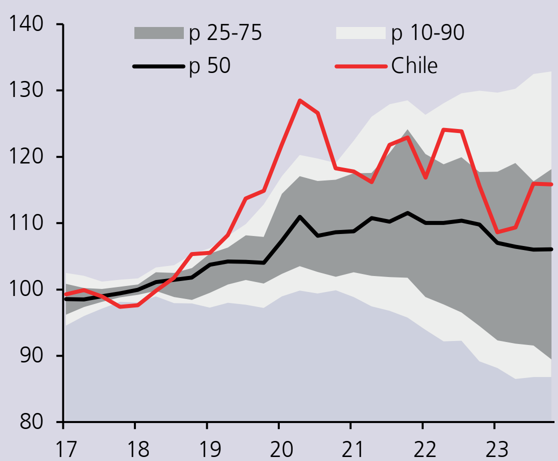
Finally, it should be noted that when analyzing only bank credit —more relevant for medium and small firms— a greater weakness is observed, even with data extended to the first quarter of this year (figure I.20). This is consistent with the behavior of sectoral investment, which is dynamic for mining —generally not financed with bank credit— and poor in the rest of the sectors, more related to bank credit. The evolution of the bank component of credit should continue to be monitored with caution, as further deteriorations could raise a warning signal.

Conclusions

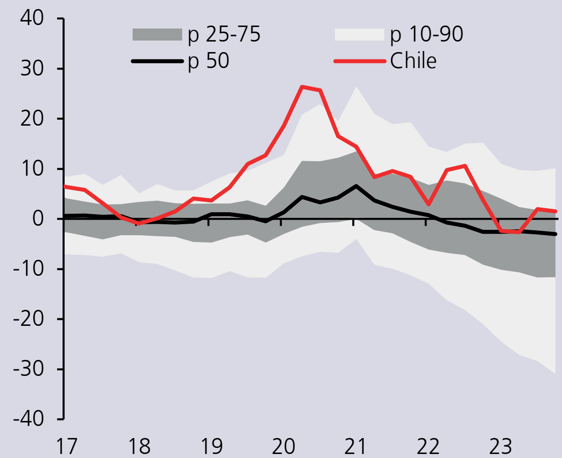
This box provides an international perspective for the dynamics of corporate credit in Chile, concluding that overall, it has been similar to what is observed elsewhere in the world. The active credit policies implemented during the pandemic helped to expand it beyond what was consistent with its fundamentals. Thereafter, the end of said policies, combined with increased interest rates and the start of a slower growth process during 2023, have contributed to the low dynamism of credit globally. Finally, it is worth noting that the analysis in this box considers total corporate credit at the aggregate level, therefore it does not address eventual heterogeneities associated with, say, the sector or size of the firm.

FIGURE I.19

a) Level of real commercial credit (1)(2)
(index, 2017-2018 average = 100)

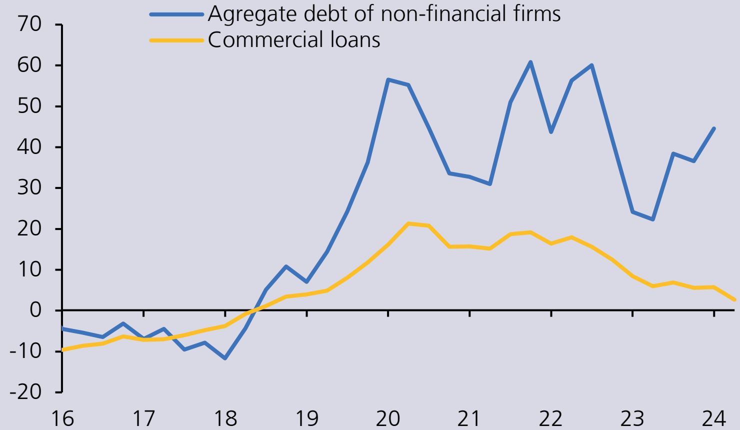


b) Commercial credit to GDP ratio (2)
(deviations from 2010 median, percent)



(1) CPI-deflated real credit level. (2) Dark shaded area represents the central 50% of the cross-section distribution at each point in time. Light area represents the central 80% of the same distribution.
Sources: Bank for International Settlements (BIS) and International Monetary Fund (IMF).

FIGURE I.20 DEBT OF NON-BANKING FIRMS (*)
(difference with respect to 2018, constant pesos of 2024.Q2, trillions)



(*) Aggregate debt of non-financial firms includes local bonds, local bank debt, external bonds, external loans, import credits, FDI, and factoring and leasing operations. Commercial loans include contingent loans and exclude lending for foreign trade, and are based on balance sheet information.
Source: Central Bank of Chile based on Financial Market Commission (CMF) and BDE data.