



# FINANCIAL STABILITY REPORT

SECOND HALF 2025





# SUMMARY

The main risk to local financial stability continues to be an abrupt tightening of financing conditions due to a deteriorating external environment. Global vulnerabilities have intensified since the last Financial Stability Report (IEF), and geopolitical, trade, fiscal, and institutional risks persist, contrasting with the steady rise in risky financial asset prices. The high valuations of these assets and the high levels of sovereign debt in advanced economies are vulnerabilities that could exacerbate the effects of various risk events on global financing conditions and their pass-through to emerging economies. Locally, financial conditions show a slight improvement compared to the last Report. Credit borrowers' vulnerability indicators have remained relatively stable, with some improvements for firms that reflect increased sales. The banking system presents capital levels that would allow it to remain solvent in a scenario of severe stress. Although the Chilean economy is not immune to the challenges posed by global variables, it enjoys macroeconomic soundness and robust financial regulation and supervision standards, which provide adjustment mechanisms and buffers to mitigate the effects of adverse shocks.

## EVOLUTION OF FINANCIAL MARKETS

**The vulnerabilities associated with international financial markets have deepened since the last IEF.** In the developed world, especially in the United States, prices of stocks, corporate bonds, and other risky assets have continued to rise, reflecting, among other factors, lower risk premiums. This, along with a drop in implicit volatility indexes (VIX, MOVE), reflects considerable risk appetite, which contrasts with the high uncertainty associated with trade, geopolitical, and institutional tensions. At the same time, global indebtedness, particularly sovereign debt, continues to rise, while market agents expect the greater fiscal stimulus approved in the U.S. and the announced increases in public defense spending by NATO members to result in significant deficits. The persistence of these deficits could undermine fiscal sustainability and put pressure on the functioning of sovereign debt markets. In turn, the growth of non-bank financial intermediaries (NBFIs) in advanced economies, their greater involvement in private and sovereign debt markets, and their interconnectedness with the rest of the financial system are vulnerabilities that could contribute to amplifying the transmission of shocks.

**Locally, financial conditions showed a slight improvement with respect to the last IEF.** Long-term interest rates fell slightly, settling around their three-year average. Spreads on sovereign and corporate bonds have also narrowed. Bond issues have been more dynamic recently, particularly in the corporate sector. In line with developments in other emerging economies, stock prices have risen and capital inflows to Chile have increased in recent months. Moreover, exchange rate volatility and long-term interest rates have seen a reduction.

## SITUATION OF BORROWERS AND LENDERS

**The levels of household vulnerabilities remain low, mirroring those described in the previous IEF.** Indebtedness showed a slight reduction, while the financial burden to income ratio remained largely unchanged, as did banking default. Debt at risk in the stress test for these borrowers is similar to that previously reported, due to an initial situation in which bank mortgage defaults were slightly higher than in the previous exercise, offset by a lower debt service ratio and higher actual wages.

**Since the previous Report, firms have seen a reduction in their debt, debt service ratio, and default indicators, which translate into a decline in their financial vulnerability.** The reduction in indebtedness was more pronounced in the trade and manufacturing sectors owing to increased sales. Something similar was observed with the debt service ratio, which also decreased due to lower commercial interest rates. However, certain segments continue to show a still weak relative situation. In particular, smaller firms and a fraction of those that obtained Fogape loans during the pandemic still report high levels of default, but a decline since the previous Report.

**Firms are in a better position to cope with a possible deterioration in the economic scenario.** Stress tests for those funded solely by banks show an overall reduction in debt at risk compared to the previous exercise, due to the initial situation of lower defaults (except in the real estate sector), higher sales, and higher margins.

**The residential real estate sector remains weak, although some improvements have been observed.** Default rates remain elevated, and the stock of completed housing units remains close to record highs. However, commercial lending rates for companies in the sector have fallen and sales are showing some improvement, reflecting the boost provided by the government's guarantees and subsidies program. In this context, the market value of the main listed real estate and construction companies has accumulated gains in 2025 to date.

**As has been noted in previous reports, the persistence of structural deficits over several years has reduced fiscal headroom and increased public debt.** Official projections indicate that, in the coming years, the public debt will remain below the levels defined as prudent by the authorities. Maintaining caution in fiscal accounts through sustainable sovereign debt is essential to preserving adequate financing conditions for households and firms, as well as for the economy's ability to mitigate the effects of future shocks.

**Non-bank financial intermediaries have increased their exposure to long-term interest rates.** In mutual funds, this has occurred through growth in managed assets, especially in those that invest in long-term and freely investable assets. For their part, pension funds have extended the duration of their portfolios through investments in dollar-denominated interest rate derivatives.

**The banks' current capital and liquidity levels would allow them to remain solvent if faced with a scenario of severe stress.** Additional capital, from perpetual bonds and regulatory buffers, has bolstered the banks' capacity to absorb financial shocks. Faced with a scenario in which activity drops abruptly and funding costs increase significantly; banks would maintain the capacity to absorb shocks under the most demanding common equity tier 1 (CET1) capital metric. In this case, some institutions would make use of part of the regulatory capital buffers considered for these purposes.

## MAIN RISKS

**The greatest risk to local financial stability continues to be an abrupt tightening of financing conditions due to a deterioration in external conditions.** In an environment where the valuations of global financial assets remain high, there are several factors that could reduce investors' risk appetite, generate a global compression of spreads, and trigger a fall in financial asset prices in international markets. These include an intensification of trade, geopolitical, or institutional tensions, as well as a more pronounced impact of these elements on activity or inflation, or changes in the perception of the benefits of technological breakthroughs that reduce the valuations of firms in the sector and expected aggregate growth. Meanwhile, in the context of sustained increases in the sovereign debt of advanced economies described above, a more negative assessment of its sustainability could raise benchmark interest rates in the global financial system. These increases could be amplified and transmitted through interconnections between banks and non-bank financial intermediaries. Locally, if these or similar risk scenarios were to come true, this could lead to capital outflows, higher interest rates, sharp drops in sovereign bond prices, and exchange rate movements interacting with the financial vulnerabilities of domestic borrowers and lenders.

**Although the Chilean economy is not immune to a significant deterioration in external conditions, its macroeconomic strength and robust financial regulation and supervision standards provide adjustment mechanisms and buffers that would mitigate the effects of adverse shocks.** The local institutional framework includes tools for dealing with exceptional scenarios, reinforced by the Resilience Law, and mechanisms for coordination between authorities and regulators. The banking industry has continued to strengthen its capital base, and its solvency indicators have improved in line with the process of convergence with Basel III standards. The resolution of macroeconomic imbalances from previous years has also contributed to improving the position of all agents in the local economy. However, efforts to deepen the local financial market must be maintained. The pension reform will help increase household savings, although it will take a long time for its effects to be reflected in a deeper capital market. The law provides for a gradual implementation of changes to the funds investment regime, which, together with the governance framework for the process, seeks to avoid abrupt portfolio adjustments that could affect the operation of the local capital market. It is important to continually analyze and monitor this transition and its impact on the functioning of the capital market. Restoring fiscal buffers also helps to generate room to deal with shocks and strengthens the financial position of local agents through access to lower-cost domestic and external financing.

## FINANCIAL POLICY DEVELOPMENTS

**The Board of the Central Bank of Chile decided to maintain the Countercyclical Capital Buffer at its current level of 0.5% of risk-weighted assets (RWA), consistent with the macro-financial and risk conditions facing the financial system, as described in this IEF.** This risk environment highlights the importance of banks having a previously established capital buffer, which would boost their capacity to withstand shocks and can be released in the event of financial stress, helping to mitigate its impact on the provision of credit to households and businesses. As announced in November 2024, the first Financial Policy Meeting of 2026 will evaluate the start of the convergence towards the neutral level of 1% of RWAs, as macro-financial conditions permit, and considering a period of no less than one year for its build-up.



**In 2025, progress has been made in consolidating the main capital requirements of Basel III, bringing our jurisdiction closer to international standards aimed at strengthening the resilience of the banking system.** The implementation of Basel III in Chile took steps toward the entry into force of most of its main components during 2025. This process has driven a gradual improvement of the system's solvency, as evidenced by the increase in the Capital Adequacy Ratio. Challenges remain going forward, such as the full application of the Pillar 2 charge, scheduled for 2027, and the implementation of internal models that better reflect the risk profile of institutions.

**The Central Bank of Chile continues to make progress in developing its Regulatory Agenda scheduled for 2025.** The proposed regulation that will allow for the recognition of framework resolutions for repurchase agreements was submitted for public consultation, establishing conditions for their acceleration and compensation in the event of default by any counterparty. In addition, the proposal to strengthen the liquidity management of Central Counterparty Institutions was published for consultation. This measure equates the treatment of cash funds held at the Central Bank with that of other liquidity deposits, so that holding funds at the BCCh is financially neutral, thus encouraging their use by CCPs. This increases the speed of fund availability under stress, improving the operational efficiency and resilience of the system. Finally, in this six-month period the BCCh will publish for consultation a proposed regulatory framework that will allow access to its Real-Time Gross Settlement System to be extended to certain non-bank entities, including financial intermediaries and market infrastructures. These initiatives are part of the strategy to modernize the critical infrastructures of the Chilean financial system, by strengthening its resilience and safeguarding its stability.

## **THEMATIC CHAPTER: CAPITAL MARKETS AND FINANCIAL STABILITY**

**The thematic chapter examines the link between capital market development and financial stability.** After several decades of continuous legal and regulatory initiatives aimed at strengthening its development, the Chilean capital market has made significant progress in terms of depth and access. However, progress has been more limited in liquidity metrics, such as stock turnover, while some depth indicators have decreased in the wake of pension fund withdrawals. Further development of the capital market has positive implications for financial stability. For example, it contributes to expanding the sources of financing available, strengthening the financial system's capacity to cope with episodes of stress, efficient price formation, more efficient risk allocation between issuers and investors, better risk management through hedging markets, and lower liquidity and financing premiums. Financial integration can contribute to this development, and although it entails greater exposure to external risks, these can be better managed and mitigated with a deeper and more efficient local capital market.



## FINANCIAL STABILITY REPORT / Second half 2025

