FINANCIAL STABILITY REPORT

SECOND HALF 2025

100 pesos, Central Bank of Chile, 2025.

The 100-peso coin holds a special place in our monetary history.

It takes its nickname, "gamba," from an old 100-peso banknote issued by the Central Bank in the 1930s. Today, millions of these coins circulate daily throughout the country and serve as a basic unit for minor transactions. For the past 25 years, the 100-peso denomination has fulfilled this role and has been minted in three different versions, all in non-precious metals. This marks a break from previous 100-peso coins, which were minted in gold.

To commemorate its Centennial, the Central Bank of Chile minted this 100-peso coin, which retains the current reverse design and changes the obverse to feature a mountain landscape alongside the BCCh centennial logo. As legal tender and part of the regular monetary program, the Bank hopes its anniversary reaches all inhabitants of the country through the circulation of our Chilean peso.

Financial Stability Report

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Financial policy of the Central Bank of Chile (BCCh)

The Central Bank of Chile has as its purpose to ensure the stability of the currency and the normal functioning of internal and external payments. To fulfill this second objective, it must safeguard the stability of the financial system within the perimeter of its legal powers, implemented from a macro-financial perspective. The decisions and actions derived from its powers are part of its financial policy framework. In this context, financial stability is considered to exist when the system performs its functions normally or without significant disruptions, even in the face of adverse temporary situations. Identifying potential risk events, vulnerabilities and mitigators, together with assessing their impact on the financial system, are at the core of the Central Bank of Chile's financial policy analysis.

Financial policy conduct and implementation

The BCCh conducts its financial policy seeking to contribute, within its scope of competence, to the stability of the financial system. This has been deepening and gaining stability in recent decades due, in part, to the development of financial policy tools and their adequate application, which in turn has contributed to monetary policy effectiveness and increased the economy's resilience to disruptive events.

The Bank implements its financial policy through rigorous decision-making processes, in joint and coordinated actions with the supervisor and regulator. In particular, the BCCh issues and administers financial regulations, decides on the activation and deactivation of the countercyclical capital buffer, prepares reports and issues opinions on the impact of potential legal or regulatory changes on which it is consulted. In addition to these measures, it may exercise the role of lender of last resort for banking companies and other liquidity management tools.

Information disclosure and transparency

The Financial Stability Report (FSR) is one of the BCCh's main financial policy and communication instruments. In view of its mandate, the FSR delivers the Board's view on the main risks, vulnerabilities and mitigators affecting financial stability. The FSR is published twice a year, in May and November. In line with international best practices, it is produced by specialized professionals and is led by the Financial Policy Division. Its contents are disseminated through various channels. In this way, the Central Bank communicates its analysis and implements its financial policy in a transparent and active manner.

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*/ The statistical cutoff date of this Financial Stability Report was October 29. The financial data considers the moving average of the last ten days.

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, stock prices, 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

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 traslate 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 main 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.

I. FINANCIAL MARKETS' TRENDS

The external scenario continues to be the main threat to local financial stability, while vulnerabilities have deepened since the last Report. Globally, there are still several sources of risk in the geopolitical, institutional, and trade fields, whose macro-financial impacts remain uncertain. Meanwhile, fiscal spending pressures and prospects for higher sovereign debt persist in a context where long-term interest rates have remained stable in recent years. This scenario contrasts with a sustained increase in the prices of risky financial assets in developed economies in the past few months. Furthermore, as in the previous Report, there are still information gaps worldwide regarding the development of non-bank financial intermediaries (NBFIs) and their integration into the financial system. High asset valuations, high levels of indebtedness, and the growth of NBFIs could exacerbate the risks of a possible deterioration in global financial conditions. Locally, financial conditions have improved slightly since the previous Report. However, the possibility of an abrupt tightening of financial conditions represents the main risk to local financial stability, reinforcing the importance of maintaining unrelenting efforts to deepen the local financial market.

THE INTERNATIONAL FINANCIAL SCENARIO

Since the previous Financial Stability Report (IEF), global financial asset prices have continued to rise, reflecting a sustained appetite for risk. The high valuation of asset prices is is reflected in the one-year forward price-to earnings ratio in advanced economies' stock markets (Figure I.1). The case of the United States stands out, where valuations are above their 10-year average. Similarly, corporate spreads in the US economy (Figure I.2) and in Europe for different risk ratings have narrowed since the previous IEF. Emerging economies have also seen a decline in their sovereign and corporate spreads in recent months, although their price-to-earnings ratios are close to their usual values. In addition, there has been a decline in the indicators of implicit volatility of financial assets (Figure I.3), which, combined with the foregoing, seems consistent with a greater appetite for risk.

Appetite for risk has increased despite the high uncertainty surrounding geopolitical, trade, and institutional tensions. Economic and trade uncertainty indicators remain high (Figure I.4), in an environment where US trade tensions linger on. Geopolitical tensions remain, with various flashpoints beyond the evolution of some ongoing military conflicts. However, the magnitude and timing of the impacts of these tensions on global trade and global financial markets are yet to be seen.

FIGURE I.1 ***High one-year forward price-to-earnings ratios in the US stock market***
PRICE TO EXPECTED EARNINGS ONE YEAR OUT (1)
(ratio)

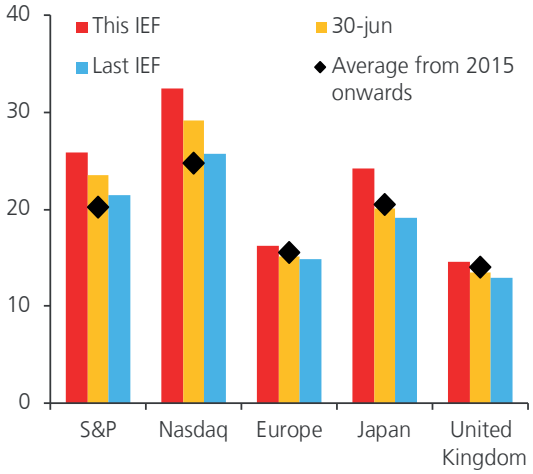


FIGURE I.2 ***Corporate bond spreads in the US remain compressed***
U.S. CORPORATE SPREADS (2)
(basis points)

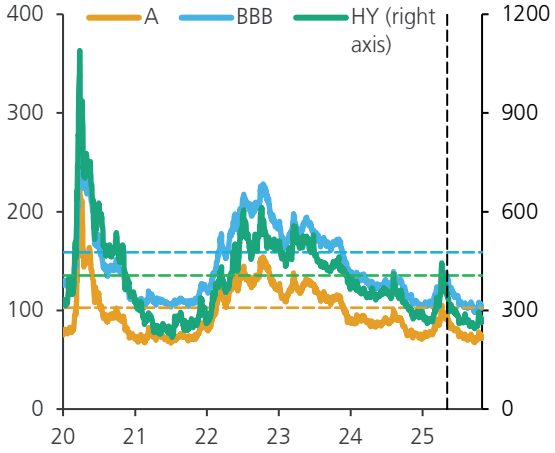


FIGURE I.3 ***Asset volatility indexes have receded in recent months***
VOLATILITY INDICATORS (3)
(index)

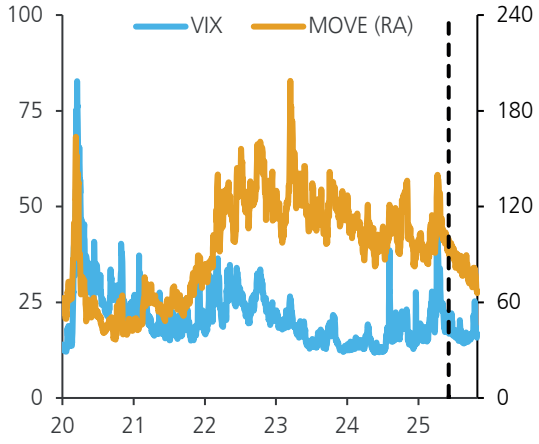
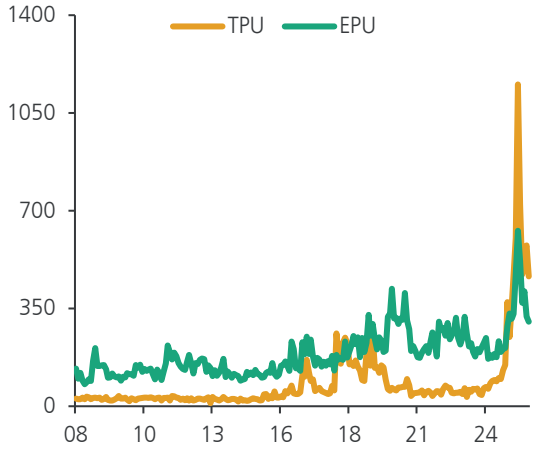


FIGURE I.4 ***Economic and commercial uncertainty indicators remain elevated by historic standards.***
UNCERTAINTY INDICATORS (4)
(index)



(1) This IEF refers to the statistical close of this Report. Previous IEF refers to the statistical close of the IEF for the first half of 2025. (2) Dotted lines mark the average between 2013 and 2023. Black vertical line marks statistical close of previous IEF. (3) Dark vertical line refers to the statistical close of the previous IEF. VIX: implied volatility in one-month options on the S&P 500. MOVE: implied volatility index in one-month options on 2-, 5-, 10-, and 30-year US Treasury bonds. (4) Uncertainty measures are indices based on news and media that quantify media attention paid to global news related to economic policy uncertainty (EPU) and trade policy uncertainty (TPU).

Source: Central Bank of Chile based a information from Bloomberg, Davis (2016), and Caldara & Iacovello (2022).

The vulnerabilities associated with high sovereign debt levels (Figure I.5) are deepening, in an environment where long-term interest rates maintain their levels of recent years. Since the last IEF, the US tax reform has extended multiple tax cuts, which is expected to add to the fiscal deficit in the coming years, putting further pressure on public debt (CBO, 2025). For their part, NATO member countries have committed to increasing public spending on defense, which will also put pressure on fiscal balances in the coming years (Monetary Policy Report IPoM, September 2025). These factors will continue to put pressure on the sovereign bond market, where global long-term interest rate levels have changed little in the last three years (Figure I.6).

The growth of non-bank financial intermediaries (NBFIs) in the private credit segment could heighten financial vulnerabilities through their interconnections with the banking sector. NBFIs have grown in importance in the global financial system, with a greater share of bank debt as a source of funding, accounting for around 9% of the loan portfolio of banks in Europe and the US (GFSR, October 2025). One important segment in which NBFIs participate is private credit funds (Figure I.7). Although these funds would make use of a moderate degree of debt (Berrospide et al., 2025), they focus on providing financing to highly leveraged firms and tend to be poorly diversified, increasing their participants' exposure to idiosyncratic risks (BIS, March 2025). In October, some U.S. banks reported losses from positions in private credit funds, which had lent to Tricolor and First Brands, both of which filed for bankruptcy. This event raised concerns about the role of banks as financers of these intermediaries. Due to the growing interconnections between banks and NBFIs, the possibility that they will exacerbate adverse shocks is greater because of the banking system's greater exposure to poorly regulated markets (GFSR, April 2024).

The presence of NBFIs in the sovereign debt market has the potential to affect the performance of this market, increasing its volatility. Hedge funds often employ leveraged investment strategies involving the use of Treasury repos. In events of high volatility and rising financing costs, these leveraged investments may need to be unwound quickly, which implies selling Treasuries, pushing up interest rates, and creating feedback effects (GFSR, October 2025), as was the case in March 2020. However, the market showed resilience in the days following the US tariff announcements in April 2025. Meanwhile, a sudden increase in market rates eroding the profitability of debt mutual funds could generate massive redemption requests that would trigger forced sales of instruments such as Treasuries, potentially triggering a further rise in rates (GFSR, October 2025). Additionally, these sales in periods of stress and their impact on the market could deepen the price correction of different types of assets, prompting additional liquidity demands and changes in risk appetite, thus affecting various market participants.

FIGURE I.5 ***Public debt remains elevated.***
GROSS GOVERNMENT DEBT (1)
(percent of GDP)

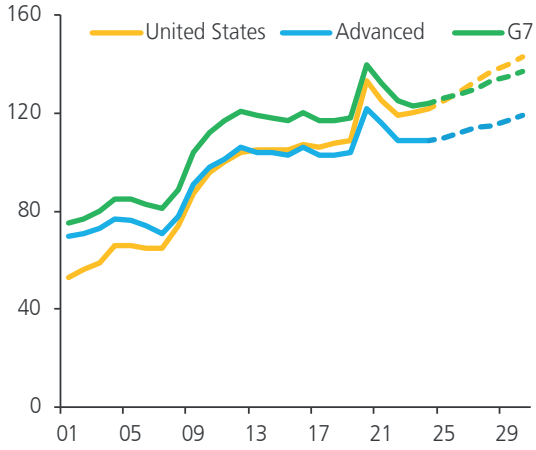


FIGURE I.6 ***Long-term interest rates remain near their levels of recent years***
SOVEREIGN 10-YEAR INTEREST RATES (2)
(percent)

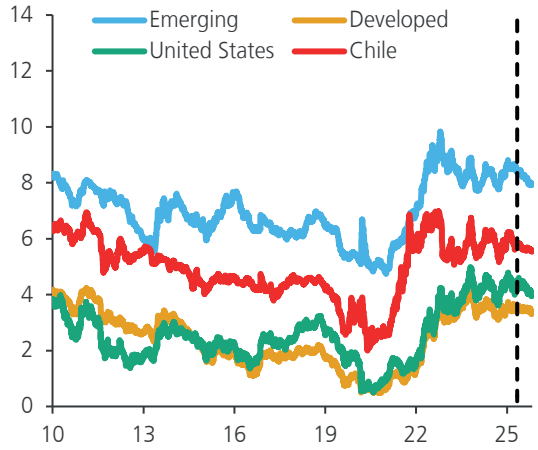
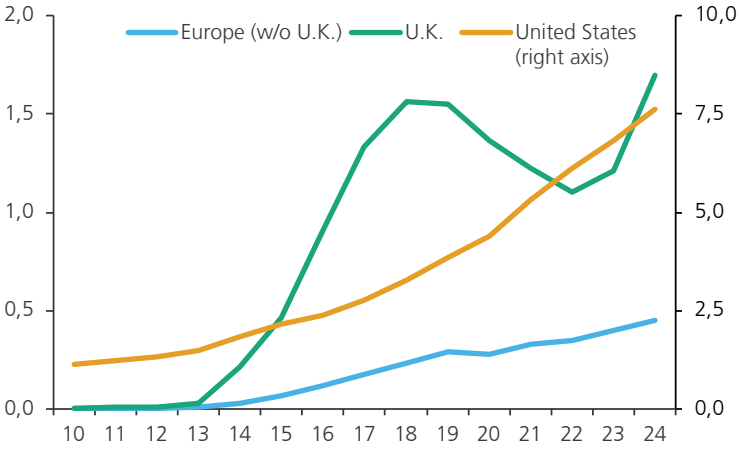


FIGURE I.7 ***Private credit market has grown in the past 15 years***
PRIVATE CREDIT MARKET (3)
(percent of total credit)



(1) Advanced includes a set of advanced economies defined by the International Monetary Fund. (2) The black line corresponds to the statistical close of the previous IEF. Developed countries include: Australia, Canada, Germany, Hungary, India, Italy, Korea, New Zealand, Norway, Singapore, Spain, Sweden, the United Kingdom, and the United States. Emerging economies include: Brazil, Chile, Colombia, Hungary, India, Indonesia, Mexico, Peru, Poland, and South Africa. (3) Private credit is shown as a percentage of total credit, defined as the sum of private credit plus bank credit granted to the non-financial private sector, by borrower region. Private credit is the total volume of direct and asset-backed loans. Data as of December 2024.

Source: Central Bank of Chile based on information from Bloomberg, BIS, and the IMF's October 2025 WEO.

LOCAL FINANCIAL CONDITIONS

At home, financial conditions have improved slightly since the previous Report. Corporate and bank bond interest rates (Figure I.8), along with their spreads (Figure I.9), have fallen since the last Report. Meanwhile, both the level and the volatility of sovereign interest rates (Figure I.10) have declined since the last Report, as have sovereign spreads, which have fallen over the same period (see statistical annex). Meanwhile, the exchange rate has depreciated by 0.5% since the last Report, with volatility levels tending to stabilize and remaining below figures for the last three years (Figure I.11). In turn, the local stock market remains linked to the dynamics of other emerging economies, which have been milder than in the United States (Figure I.12). Furthermore, the ratio between the price and one-year forward price-to-earnings ratio of local stocks stands close to those in the previous Report and around its average for the last 10 years. These developments have coincided with capital inflows since the beginning of this year, both in Chile and in other emerging economies (Figure I.13).

Local bank and corporate bond issuances have primarily responded to the refinancing of liabilities. Local corporate fixed income issuances have shown greater dynamism in recent months (Figure I.14), while local bank issuances remain stable (Figure I.15). Likewise, there has been an acceleration in the pace of corporate bond issuance abroad (see statistical annex). The main objective of both local corporate and local bank bond issuance has been to refinance liabilities. In this context, there are high maturities—compared to those of the last decade—of corporate and bank bonds in the next two years, which as a percentage of GDP are equivalent to 1.5% and 4.4%, respectively (Figure I.16), and need to be monitored.

Financial intermediation markets have been functioning normally. Since the last Report, short-term market rates, as well as commercial and consumer credit rates (Chapter III), have closely followed local monetary policy developments in recent months, with the MPR being reduced by 25bp (Figure I.17). Meanwhile, the cost of financing in pesos and dollars at the local level, measured by the DAP-Swap and onshore spreads (statistical annex), respectively, has fluctuated around its historical average, without showing any significant liquidity pressures.

FIGURE I.8 ***Falling long-term corporate bonds's interest rates***
INTEREST RATES ON 10-YEAR UF-INDEXED CORPORATE BONDS
(percent, moving 30-day mean)

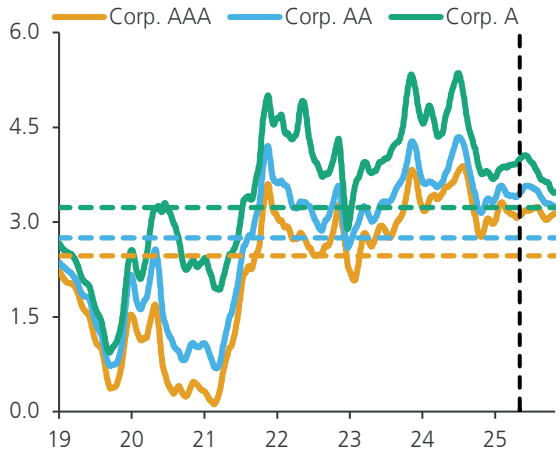
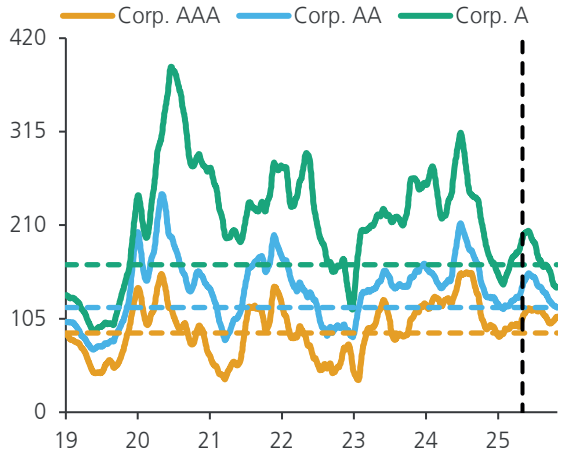


FIGURE I.9 ***Corporate spreads have also declined in recent months.***
SPREAD OF 10-YEAR UF-INDEXED CORPORATE BONDS
(basis points, moving 30-day mean)



(1) Horizontal lines represent the averages for each series between 2013 and 2019. Black vertical line marks statistical close of previous IEF. (2) Spreads calculated over SPC UF rates.

Source: Central Bank of Chile based on information from RiskAmerica, using generic bonds' interest rates.

FIGURE I.10 ***Local sovereign rates' volatility has declined since preious IEF.***
SOVEREIGN RATE VOLATILITY IN PESOS AT 10 YEARS (1)
(basis points)

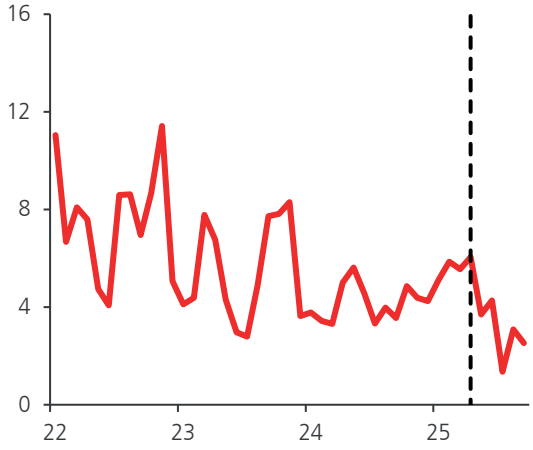


FIGURE I.11 ***Exchange rate volatility has been reduced in recent months***
NOMINAL EXCHANGE RATE VOLATILITY (2)
(percent)

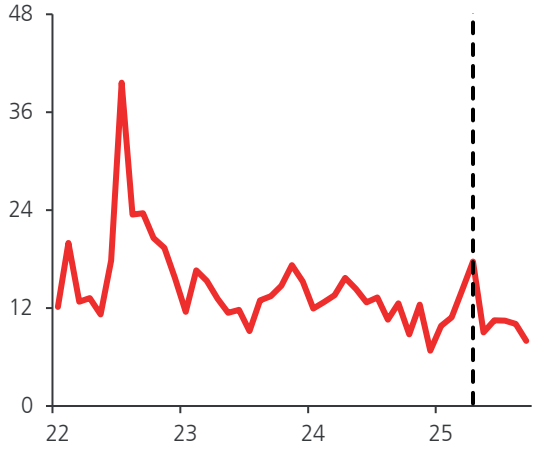


FIGURE I.12 ***Local stock prices boom coincides with experience of other emerging economies***
LOCAL EMERGING ECONOMIES'S STOCK MARKETS AND S&P500 (3)
(index 100=03.01.2018)

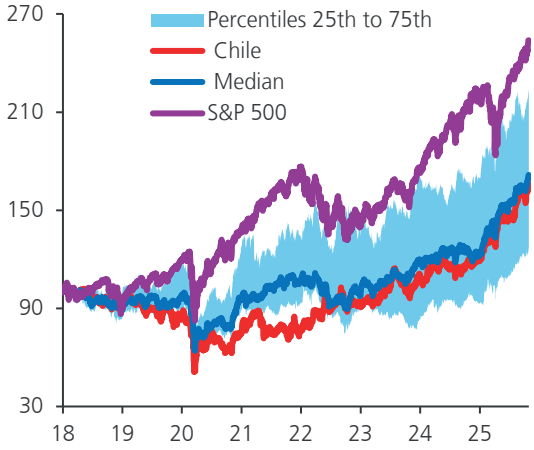
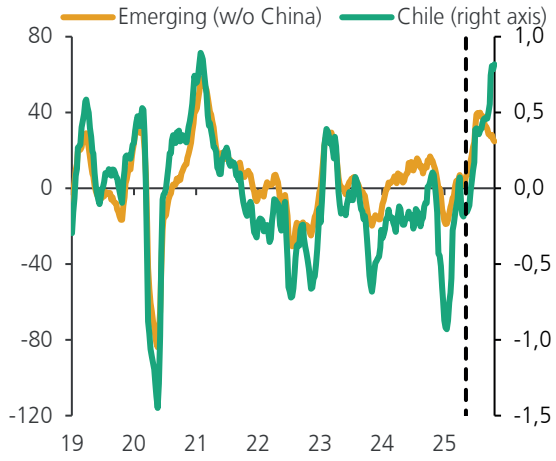


FIGURE I.13 ***Capital inflows have been registered in 2025***
INVESTMENT INFLOWS FROM NONRESIDENTS (4)
(billions of dollars)



(1) Annualized standard deviation of the sovereign rate's daily change. Dashed vertical line marks statistical cutoff of previous IEF. (2) Annualized standard deviation of the nominal exchange rate's daily return. Dashed vertical line marks statistical cutoff of previous IEF. (3) Shaded area shows the difference between the 25th and 75th percentile of the distribution of cumulative changes since the last IEF for a set of emerging economies that includes: Brazil, Chile, Colombia, Hungary, India, Indonesia, Mexico, Peru, Poland, South Africa, Thailand and Türkiye. (4) Cumulative 12-week moving sum of fixed income and equity investment flows tracked by EPFR. Dashed vertical line marks the cutoff week of previous IEF.

Source: Central Bank of Chile based on Bloomberg and EPFR data.

Assets managed by mutual funds have continued to increase, surpassing pre-pandemic levels (Figure I.18). Noteworthy is the increase in funds investing in medium- and long-term fixed income (type 3) and those in the "free-investment" categories (type 6), whose assets show increases in real terms of 17.2% and 16.1%, respectively, since the end of April this year. In the case of type 3 mutual funds, investment in government bonds has risen, meaning that, in the event of an increase in redemption requests, these funds could sell financial intermediation instruments together with these instruments, reducing their prices and raising their benchmark rates. In any case, the growth of fixed-income funds exposes these financial intermediaries to upward movements in interest rates, a situation that calls for continued monitoring.

Since the last IEF, pension fund assets have continued to grow, as has their position in long-term dollar-denominated derivatives. In line with local and international stock market performance, less conservative funds have outperformed more conservative ones (i.e., C, D, and E funds) since the last Report. The active position of pension funds in long-term dollar interest rate derivatives has increased, while the passive position in shorter terms in that currency has also increased (Figure I.19). This change in the investment portfolio has increased profitability as well as exposure to the risk of more pronounced increases in the long end of the yield curve, which generates potential liquidity needs to cover margin calls. Thus, in a stressful scenario in which long-tern interest rates rise abruptly and significantly, these funds may need to liquidate local fixed-income assets, putting pressure on those markets.

Fixed-income market liquidity remains low from a historical perspective, beyond a gradual increase over the last three years. Fixed-income trading volumes have continued to show slight improvements in recent years, mainly due to greater trading of sovereign bonds in pesos on the OTC market. This development has coincided with an increase in the participation of non-resident investors in the sovereign bond market. However, in real terms, current transactions are equivalent to 79% of those recorded in 2019, reflecting a shallower and not so liquid market compared with the pre-pandemic period (Figure I.20).

FIGURE I.14 ***Local corporate bond issuances have recovered during this year***
LOCAL CORPORATE BOND ISSUANCES (*)
(percent of GDP)

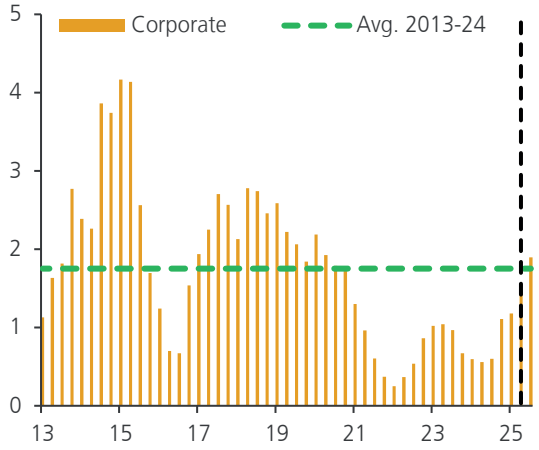
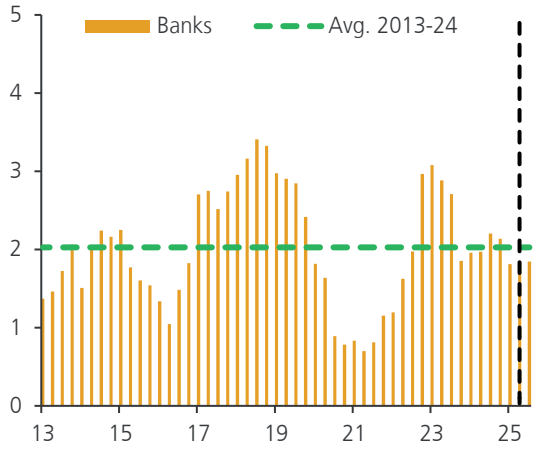


FIGURE I.15 ***Local bank issuances remain stable.***
LOCAL BANK BOND ISSUANCES (*)
(percent of GDP)



(*) Quarterly data, last quarter is 2025.III. Black vertical line marks quarter of publication of previous IEF. The numerator corresponds to the moving sum of four quarters of emissions. The denominator corresponds to a moving sum of four quarters of the quarterly GDP series at current prices.

Source: Central Bank of Chile based on information from the Santiago Stock Exchange, DCV, and RiskAmerica.

FIGURE I.16 ***Sizable maturities of bank and corporate bonds are expected in the next two years.***
BOND MATURITIES FOR THE NEXT TWO YEARS (1)(3)
(percent of GDP)

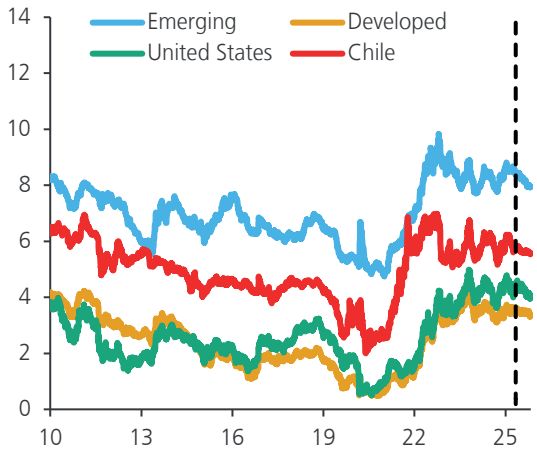


FIGURE I.17 ***Short-term interest rates in pesos evolve in line with local monetary policy developments***
SPC INTEREST RATES IN PESOS (*)
(percent)

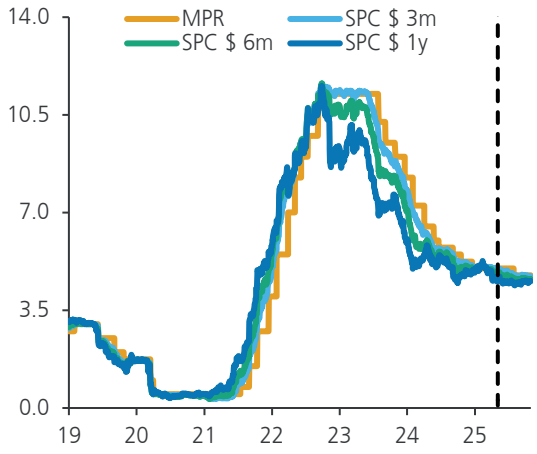


FIGURE I.18 ***Mutual fund assets are still on the rise, as are pension funds, albeit at a slower pace***
PENSION FUND AND MUTUAL FUND INVESTMENTS (1)(3)
(percent of GDP)

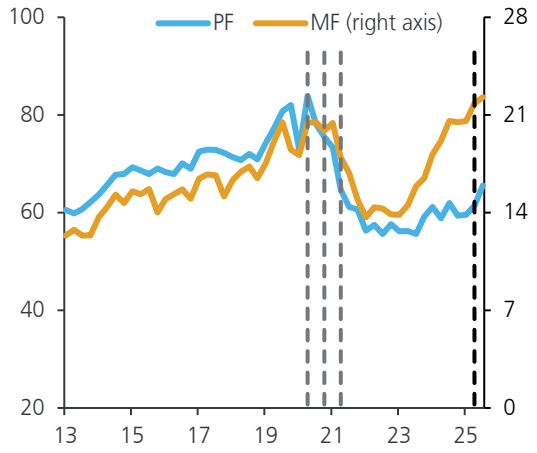
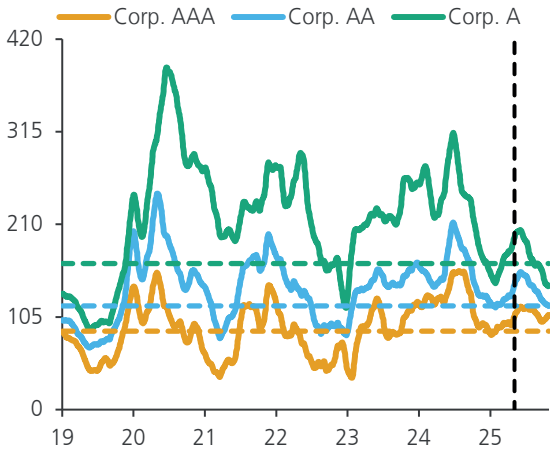


FIGURE I.19 ***Pension funds have increased their exposure to losses in the face of long-term rate hikes.***
TOTAL NET AMOUNT OUTSTANDING BY TERM IN FOREIGN INTEREST RATE SWAPS (4)
(billions of dollars)



(1) Black vertical line marks previous IEF statistical close. (2) Numerator is the stock of bonds with a residual maturity of under 730 days. Denominator is the moving sum of four quarters of GDP at current prices. Third quarter GDP is estimated based on the September EEE. (3) Quarterly data. Third quarter 2025 data estimated using September EEE survey. Gray vertical lines indicate pension fund withdrawals. (4) Positive values indicate a net purchasing position of variable interest rates by pension funds (receive variable rates and deliver fixed rates), while negative values indicate a net selling position of variable interest rates (receive fixed rates and deliver variable rates).

Source: Central Bank of Chile based on CMF, DCV, and Pension Superintendency information.

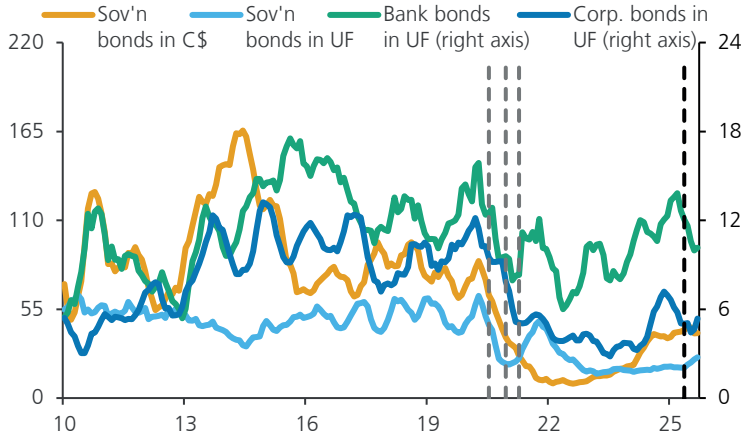
MAIN RISKS

The main threat to local financial stability comes from a potential downturn in the global economy that could suddenly make financing conditions tighter. There are many factors that could make investors less keen to take risks, cause spreads to widen globally, and lead to a drop in financial asset prices on international markets, especially with global financial assets that have considerably high valuations. An intensification of trade, geopolitical, or institutional tensions, as well as a more pronounced impact of these tensions on activity or inflation, or changes in the perception of the benefits of new technologies that reduce the valuations of firms in the sector and aggregate growth expectations, are all factors that could tighten financing conditions.

A more negative assessment of the fiscal sustainability of advanced economies could drive up benchmark interest rates in the international financial system. In the context of sustained increases in the sovereign debt of advanced economies, a rise in long-term sovereign rates would increase the cost of refinancing public debt and the financial cost of new sovereign issuances. Furthermore, prospects for higher long-term debt in the United States could directly affect the decompression of spreads between emerging and developed economies through the term premium channel (Box I.1). These increases could be amplified and transmitted through interconnections between banks and nonbank financial intermediaries.

A deterioration in global macro-financial conditions would have local repercussions. The materialization of these or similar risk scenarios could trigger capital outflows, interest rate hikes, sharp corrections in sovereign bond prices, and exchange rate movements that would interact with the financial vulnerabilities of local credit users and providers, in a context where markets remain shallow from a historical perspective.

FIGURE I.20 ***Fixed income turnover has shown gradual improvement since 2022.***
FIXED-INCOME TURNOVER INDEX (*)
(percent, moving six-month average)



(*) The fixed income turnover index contains in the numerator the monthly sum of the amounts traded at market value in pesos, considering transactions on the Santiago Stock Exchange and the OTC market. The denominator contains average nominal stocks per instrument/currency, converted to pesos at current day prices. Gray vertical lines indicate months with pension fund withdrawals. Black vertical line denotes the month of the previous IEF.

Source: Central Bank of Chile based on DCV and LVA indices.

BOX I.1:

Risks of rising term premiums in the US and pass-through to local sovereign interest rates

The high valuations of risky assets in advanced economies may signal a high appetite for risk that could reverse in the face of different types of shocks. For some time now, external financial conditions have seen a combination of high asset valuations and compressed spreads (GFSR, October 2025), including a negative term premium on US sovereign debt from before the pandemic until the end of 2024, with a limited rebound in 2025 that reached 60 bp at the close of this Report (Figure I.21). In this context, several international organizations have warned of the possibility that various shocks could trigger a reduction in global investors' risk appetite, corrections in asset valuations, and decompression of risk premiums, including the term premium on US sovereign debt.

Abrupt increases in this term premium can affect the Chilean sovereign interest rate, which is the benchmark interest rate for other longer-term domestic interest rates. Ten-year sovereign interest rates in the United States correlate positively with interest rates of similar maturity in emerging countries, including Chile (Figure I.6). Furthermore, several studies have found that changes in US sovereign interest rates are transmitted to emerging market rates (Albagli et al., 2019; Mehrotra et al., 2019; Caballero and Upper, 2026). This occurs because Treasury bond interest rates are the benchmark rates for the global financial system. Thus, when the term premium on these instruments rises and investors demand greater compensation to hold these assets, the risk-to-return ratio of other assets changes and global portfolios are rebalanced.

Transmission at domestic interest rates may be more pronounced in situations where the valuation of external risky assets—notably in the US—is particularly high. This is so because, under these conditions, an increase in the term premium can trigger a broader decompression of risk premiums (GFSR, October 2017; Menna et al., 2025).

An empirical exercise shows that a shock to the term premium of the 10-year US sovereign interest rate is passed on more strongly to local sovereign interest rates when the valuation of external risky assets is high. A simple indicator of this valuation is the cyclical component of the price-to-earnings ratio for stocks included in the S&P 500. Figure I.22 shows periods in which this indicator has been in the top quartile of its distribution, which are seen as periods of high valuation. Figure I.23 shows the results of using a local projection methodology (Jordá, 2005) on a weekly basis to estimate the dynamic responses of the Chilean sovereign nominal interest rate to a 100 bp shock to the term premium in the United States[1]/. On average, the response of local interest rates shows a maximum temporary increase of around 40 basis points six weeks after the shock. However, in periods of high asset valuations, this response is amplified, reaching 80 bp over the same horizon and 100 bp after 30 weeks. Meanwhile, in response to the same shock, there is a decline in the price-to-earnings ratio for US stocks over a one-year horizon, which is more pronounced in contexts of high valuations (Figure I.24). These results are consistent with the notion that a sharp increase in these term premiums often occurs in conjunction with a more generalized decompression of risk premiums, and it is in these scenarios that they can have a significant impact on local interest rates.

[1]/ The US term premium shock refers to the residual of a regression between the weekly variation in the term premium and the weekly variation in the risk-neutral component (both for the US nominal 10-year interest rate). Subsequently, a regression of local projections is estimated, where the dependent variable is Chile's 10-year sovereign nominal interest rate. The regressors are the term premium shock and its interaction with a dummy variable that takes the value one when the cyclical component of the expected 1-year price-to-earnings ratio is above the 75th percentile of its distribution. All regressions control for 10 lags of the dependent variable and weekly variations in the VIX. Statistical inference calculated based on block bootstrap, with blocks of 52 weeks. Further details in Calani et al. (2025).

FIGURE I.21 ***Term premiums for US sovereign debt have risen moderately in 2025.***
CHILE - US SOVEREIGN RATE SPREAD AND US 10-YEAR TERM PREMIUM
(basis points)

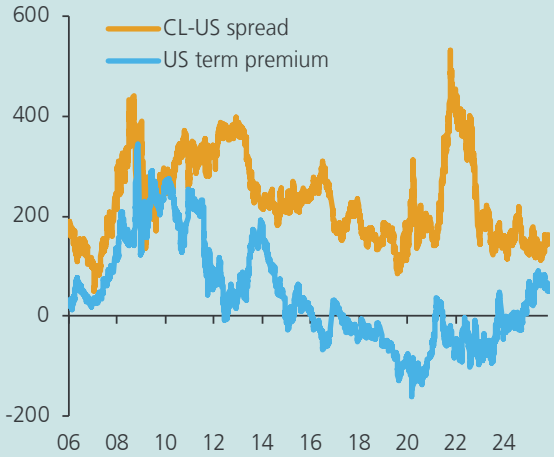


FIGURE I.22 ***The US one-year forward price-to-earnings ratio is at elevated levels***
CYCLICAL COMPONENT OF THE US ONE-YEAR FORWARD PRICE-TO-EARNINGS RATIO (1)
(percentage points, weekly data)

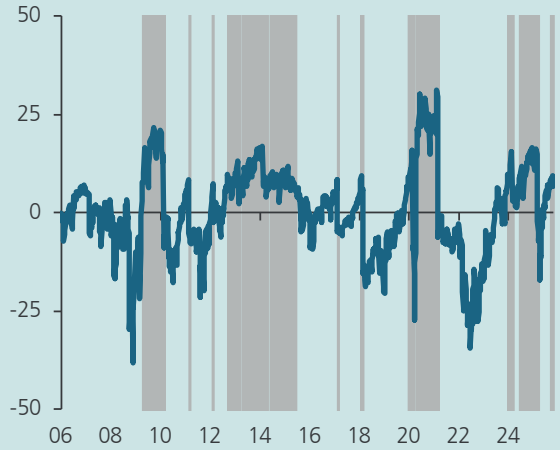


FIGURE I.23 ***Response of local interest rates to shocks in US term premiums is greater in times of high asset valuations in the US.***
RESPONSE OF CHILE'S 10-YEAR NOMINAL INTEREST RATE TO A 100-BP SHOCK IN US TERM PREMIUMS
(basis points, weeks)

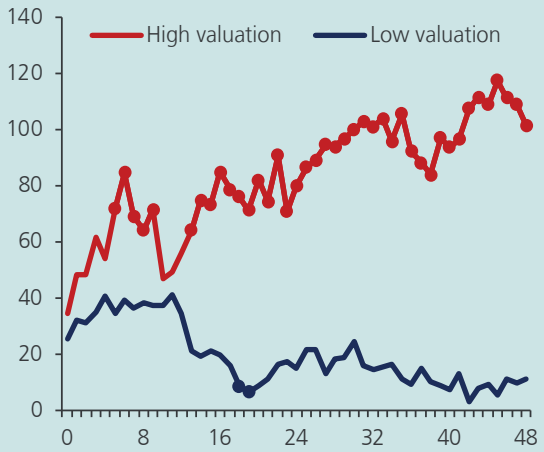
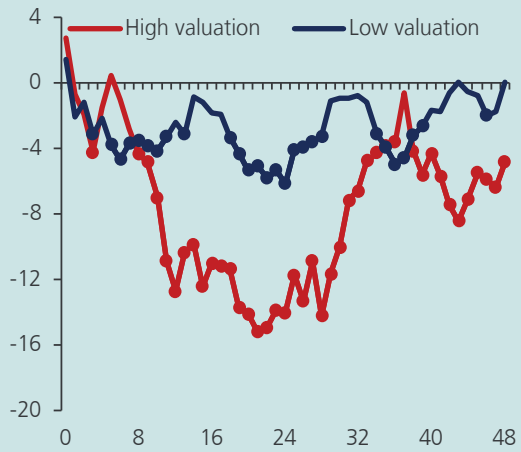


FIGURE I.24 ***Valuation of other risky assets also falls after a shock in US term premiums.***
RESPONSE OF THE RATIO OF PRICES TO EXPECTED EARNINGS TO A 100 BP SHOCK IN US TERM PREMIUMS (2)
(percentage points, weeks)



(1) The cyclical component and the trend in the price-to-expected-earnings ratio at one year are broken down with weekly data, based on Ravn and Uhlig (2002). Shaded areas show weeks where the cyclical component is above the 75th percentile of its historical distribution. (2) High valuation indicates moments when the ratio between price and expected 1-year earnings of S&P 500 stocks is above the 75th percentile of the distribution. Low valuation refers to all other cases. Dots in series mean 95% significance using block bootstrap.

Source: Central Bank of Chile based on information from Bloomberg and NY Federal Reserve.

II. BORROWERS

Credit users' vulnerability indicators have remained fairly stable over the last six months, with some improvements among firms reflecting increased sales. Household vulnerabilities remain low, similar to those described in the previous Report. Thus, individuals' debt at risk shows no significant changes. The firms reduced their debts, financial burden, and default indicators, reflecting lower financial vulnerability compared to the previous Report. Stress tests show a generalized reduction in debt at risk, resulting from the initial situation of lower defaults (except in the real estate sector), higher sales, and bigger margins. However, the weakness noted in previous IEFs persists in residential property firms—although with improvements in some indicators in recent months—in smaller firms and in a fraction of those that got Fogape[+] loans during the pandemic. Regarding public finances, persistent structural deficits over several years have narrowed fiscal space and increased debt. Maintaining sustainable sovereign debt boosts the economy's capacity to mitigate the impact of future shocks and improves the perception of risks facing the local economy, allowing local agents to access external and internal financing at a lower cost. The main financial risk for these agents continues to be an abrupt tightening of lending conditions due to a deterioration in the external environment, which would negatively impact their repayment capacity.

FIRMS

The firms' debt ratio decreased with respect to the end of 2024, mainly due to greater sales. The aggregate indebtedness of non-bank companies fell to 106.5% of GDP during the second quarter of 2025 (Figure II.1). This result was influenced by improved economic activity and a decline in commercial credit, the latter owing mainly to demand-side factors (Bank Lending Survey, third quarter 2025). Lower bank debt was partly offset by higher external debt, despite the appreciation of the peso. By the same token, corporate bond issues have been more dynamic than in previous years, in both the local and external markets (Chapter I).

The firms that report their financial statements to the CMF saw a slight improvement in their indicators. These firms show higher revenues and operating cash flows, stable liquidity levels, and a moderate foreign exchange mismatch[1]/, which has reduced their vulnerabilities. In the second quarter of this year, profitability reached 6.6% over assets, while indebtedness and interest coverage dropped slightly, to 0.7 times the net worth and to 2.7 times financial expenses respectively compared with the previous Report (Figure II.2).

[+]/ A guarantee fund for small enterprises, *Fondo de garantía para pequeños empresarios* in Spanish.

[1]/ The exchange rate risks associated with issuing foreign bonds are low, since most issuing firms receive their income in dollars, which protects them from exchange rate fluctuations (IPoM, September 2018; IEF, first half 2019). Meanwhile, the portion of FDI-related external debt corresponds mainly to borrowing between subsidiaries and parent companies, which has a lower level of enforceability (IEF, second half of 2019).

FIGURE II.1 ***Non-bank corporate debt has declined in terms of GDP.***
NON-BANK CORPORATE DEBT (1)(2)
(percent of GDP; 2025.II)

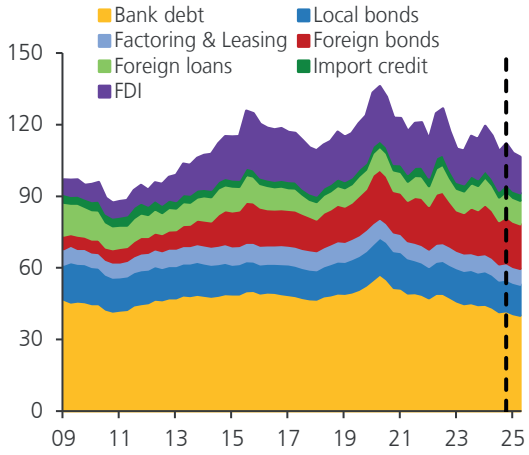


FIGURE II.2 ***The firms reporting to the CMF reduced their indebtedness slightly.***
FINANCIAL INDICATORS (1)(3)
(percent of total assets; times financial expenses; times equity)

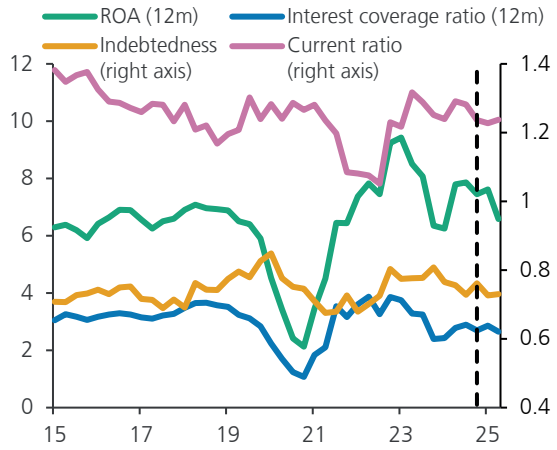


FIGURE II.3 ***Corporate bank debt decreased slightly.***
DEBT-TO-SALES RATIO (1)(4)
(times monthly sales, moving quarterly average, median)

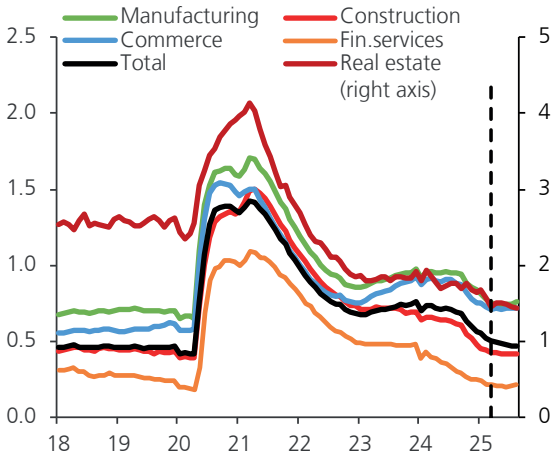
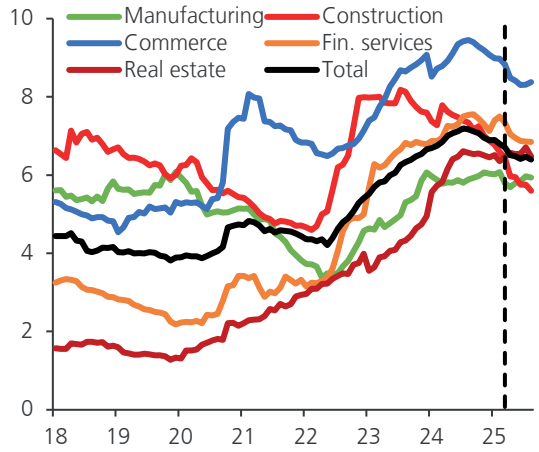


FIGURE II.4 ***Nonpayment declined, except in real estate and manufacturing sectors, where it remained more stable.***
PORTFOLIO IN DEFAULT (1)(4)(5)
(percent of debt)



(1) Dashed vertical lines mark statistical close of previous IEF. (2) Based on firm-level information, except for factoring, leasing and others, securitized bonds, and commercial papers. (3) Return on assets refers to twelve months' cumulative profit before financial expenses and taxes, over total assets. Interest coverage ratio is defined as twelve months' profit before taxes and financial expenses, over annualized financial expenses. Indebtedness stands for debt-to-equity ratio. Current ratio means current assets over current liabilities. State-owned companies and those classified in the Financial Services and Mining sectors are not included. (4) Firms with local bank financing. Individuals not included. (4) Companies with local bank financing. Individuals are not included. (5) Portfolio in default corresponds to portfolio C or group in default. For further information, see Box II.1 IEF, first half 2024.

Source: Central Bank of Chile based on CMF and SII information.

Since the previous Report, the firms financed exclusively by local banks have slightly reduced their indebtedness as a result of increased activity (Figure II.3). A similar trend was observed in the financial burden over sales, which also decreased because of the widespread fall in commercial interest rates in the banking system, both by risk rating and by sales strata.

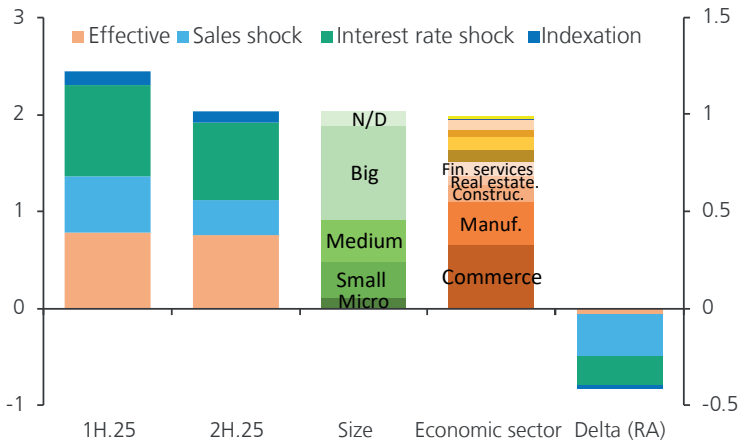
The evolution of the various bank nonpayment measures points to somewhat less financial vulnerability among firms, but there are some exceptions. In August 2025, payment defaults reached 6.4% of commercial loans[2]/, just below the 6.7% of the previous IEF, but still above the levels seen before 2019 (Figure II.4). This mirrors the evolution of commercial delinquency, which now stands near its previous IEF level (Chapter III). By sectors, the decline in defaults in the retail, financial services, and construction industries stands out. However, the situation in the real estate and construction sectors remains weak (see Real Estate Sector section). In addition, smaller firms, and a fraction of those that obtained Fogape loans during the pandemic remain comparatively more vulnerable (see statistical annex).

STRESS TEST FOR FIRMS[3]/

In a severe stress scenario, the debt at risk of default for firms financed exclusively by banks falls, as compared to the previous Report. When faced with severe situations that include a sharp drop in sales and high interest rates, the debt at risk for businesses that couldn't meet their financial commitments would reach 2.0% of GDP according to data from June of this year (Figure II.5). This level represents a drop from the 2.4% in the previous Report with data at December 2024. This reduction is explained by a better initial situation for the firms to which the stress scenario applies. This is due to lower bank defaults between the two exercises (Figure II.4) due to greater sales and a drop in the financial burden associated with lower commercial interest rates. Thus, under stress, the impact of the sales shock is 0.22pp and that of rates is 0.15pp lower than assumed in the previous Report in terms of commercial debt at risk, concentrating on large and medium-sized companies in the trade and manufacturing sectors[4]/. At the end of this test, no significant changes were observed in financial costs, sales, or defaults, meaning that commercial debt at risk has remained stable over the past few months.

[2]/ The default portfolio includes "debtors and their loans for which recovery is considered remote, as they show impaired or no ability to pay" (CMF). In other words, in addition to defaulting debtors, it includes those who have required restructuring or who have stopped or are expected to stop repaying their loans. For more information, see Box II.1 in IEF first half 2024.
[3]/ Stress test for firms financed solely by local banks. Based on Córdova et al. (2021). It has a one-year horizon and considering the occurrence of three shocks, assuming i) for activity, a severe scenario of falling sales, consistent with that presented in the banking stress test (Chapter III); ii) for commercial interest rates, an increase of 600bp; and iii) for inflation, an increase of 4pp in one year.
[4]/ This test also considers increases in inflation that directly affect the repayment of debts denominated in UF. It does not consider all the additional general equilibrium effects associated with inflationary shocks.

FIGURE II.5 ***Corporate debt at risk declined as a result of the initial situation of lower actual bank defaults (except in the real estate sector), higher sales, and higher margins.***
COMMERCIAL DEBT AT RISK (*)
(percent of GDP, 2024)



(*) Firms financed with local banks. Excludes personal loans. Corresponds to amount owed by each firm weighted by its individual probability of default within one year. As of June 2025, the share of commercial debt in each sector is: Commerce (18%); Construction (13%); Real estate (18%); Manufacturing (7%); Financial services (15%); Other (29%).

Source: Central Bank of Chile based on CMF and SII information.

THE REAL-ESTATE SECTOR

The residential real estate sector remains weak. The real estate sector has been sluggish for several years, being reflected in an increase in bank defaults in the sector (Figure II.4). The real estate firms have addressed this situation by managing their liquidity requirements in various ways, including capital contributions, borrowing from sources other than banks, and downsizing their level of operations. Another image of this weakness is that the housing stock in the Metropolitan Region (MR) continues to be significantly concentrated on finished units. By the third quarter of 2025, nearly half of the stock was ready for handover, above the average reached between 2011 and 2019 (Figure II.6). As a result, and assuming that sales were only of finished units, it would currently take 14 months to exhaust the stock of completed housing in the MR, while in said period (2011-2019) it took an average of seven months.

Housing prices have grown at a faster pace in recent quarters. Housing prices rose 3% in real annual terms in the second quarter of 2025, with a larger increase in new homes (Figure II.7). However, as noted in previous IEFs, a downward adjustment in housing prices is part of the feasible risk scenarios.

An adverse scenario of a sharp drop in housing prices would increase bank provisions, with reduced effects on the banks' capital. Given that the value of homes constitutes the collateral for mortgage loans, a significant drop in their value would affect the repayment of these loans and force financial institutions to increase provisions to cover the higher risk. This higher level of provisions would not have a significant impact on bank capital, thanks to the current mitigating factors based on prudential regulation related to the debt-to-collateral ratio and conservative collateral valuation criteria (Box II.1 IEF, second half 2024). Along these lines, as of the fourth quarter of 2024, it is estimated that 85% of the stock of mortgage debt corresponds to loans whose balance is less than 80% of the value of the home. However, the degree of interconnection with the real economy and the financial sector highlights the importance of monitoring the financial situation of firms in the sector.

In this still weak scenario, some positive signs have been observed since the previous Report. The entry into force of the Fogaes New Home Support program improved access to mortgage loans for homes under 4,000 UF, given the state guarantee and interest rate subsidy. This contributed to a decline in bank mortgage rates, which stood at around 4.2% in September 2025, slightly below the average of the last three years[5]/. In turn, in the third quarter of 2025, demand for housing loans was perceived as stronger than in the previous quarter (Bank Lending Survey). In this context, sales have recently improved, with an 18% increase in the MR in the third quarter over year-ago levels. However, the volume of units sold is still 10% below the average seen in the period from 2011 to 2019 (Figure II.8). Meanwhile, commercial loan interest rates have fallen, easing the financial burden on real estate and construction firms. The stock market value of the main real estate and construction companies has accumulated gains so far in 2025, registering returns even above the IPSA, which suggests an improvement in the perception of the sector. Along these lines, significant bond placements have been recorded in the local market, intended for the refinancing of liabilities and new projects. Additionally, there has been a recovery in the number of projects entering the registry of the Capital Goods Corporation (CBC).

In the non-residential sector, the office-space vacancy rate remains high, at around 10% during the first half of 2025. In warehouses, between 2017 and 2020, the average vacancy rate was 6%, standing at 5% at the end of 2024, where the adjustment was accompanied by a fall in prices in recent years. As of March 2025, the exposure of Public Investment Funds (PIF) to the local real estate sector reached 19% of their assets, while the exposure of CSV stood at around 28% at the end of the first half of the year[6]/.

FIGURE II.6 ***Stock of completed homes remains high***
STOCK OF NEW HOMES FOR SALE (1)(2)
(thousands of units)

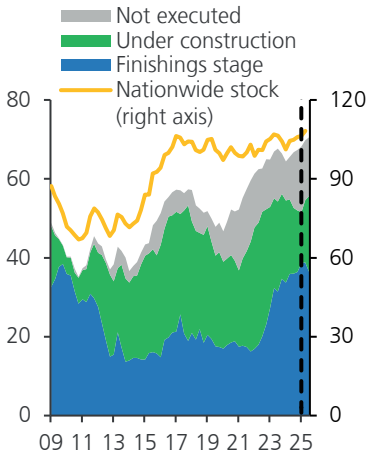


FIGURE II.7 ***Housing prices continue to grow***
TOTAL HOUSING PRICE INDEX (IPV) (1)
(index, 2015.I =100)

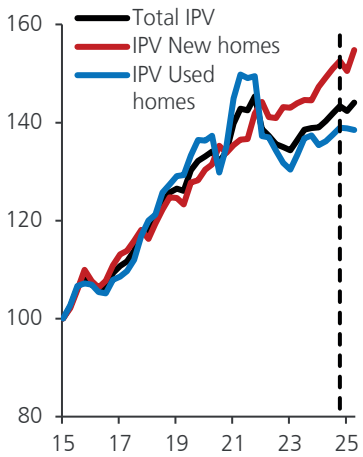
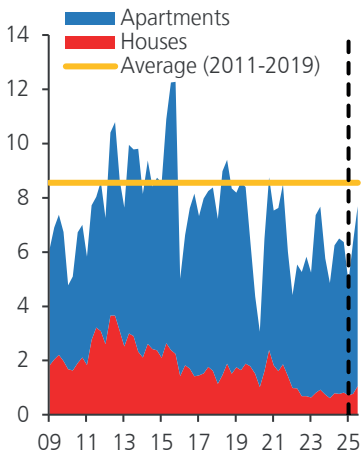


FIGURE II.8 ***Home sales increased in 2025.III.***
SALE OF NEW HOMES: MR (1)
(thousands of units, quarterly sales)



(1) Dashed vertical lines correspond to the statistical close of previous IEF. (2) Areas represent stock in the Metropolitan Region.
Source: Central Bank of Chile based on CChC and SII information.

[5]/ For more information, see Statistical Data Base.
[6]/ ACAFI Real Estate Report 2025. The exposure of CSVs considers the sum of real estate investments (16%) and mutual funds and mortgage notes (12%). It does not consider investments through financial instruments such as investment funds or stocks (Insurance Market Financial Report, June 2025).

HOUSEHOLDS

Household savings and wealth remained stable compared to the previous Report. Income growth and consumption trends allowed the savings rate to stand at 5.5% of GDP in the second quarter of this year, similar to the end of 2024 figure (CNSI 2025.II)[7]/. Higher savings allow households to be more resilient in the face of potential future income losses. Meanwhile, net financial wealth stood at 121.6% of GDP, a slight increase compared to the previous Report. In the labor market, unemployment stood at 8.5% in the July-September 2025 moving quarter, while real wages grew by close to 2% annually as of August (INE), slowing marginally compared to the previous Report[8]/.

In households, vulnerabilities remain low, similar to what was described in the previous Report. In a context of weak personal credit (Box II.1), indebtedness declined slightly in the last six months, except for those in the highest income quintile (Figure II.9). On aggregate, the financial burden over income showed no significant change (Figure II.10)[9]/. However, lower-income debtors—first and second quintiles—reversed the downward trend they had been showing for several years, with an incipient rise associated with greater use of revolving consumer credit. This type of debt involves higher interest rates than installment consumer loans and typically carries a higher risk of default. A greater financial burden means increased vulnerability to adverse shocks, especially among lower-income and more indebted households. Although some segments are somewhat more vulnerable, this does not imply a systemic risk, given their smaller share of the banking portfolio.

Compared to the previous IEF, there were no significant changes in consumer and mortgage loan defaults. This indicator, which calculates the debt of individuals in default as a share of total debt, stood at 10.4% for consumer loans and 2.5% for mortgage loans in June. These figures are similar to the 11.5% and 2.4% recorded in December last year, respectively (Figure II.11). The delinquent debt indicator, which is based on administrative data, is a proxy for accounting delinquency. Given their different origins, they differ in their levels, but show similar dynamics, as both regain on aggregate their values near those seen before 2019 in both portfolios (Chapter III). Likewise, for the same previous period, both the composition and the profile of those in default on their mortgage loans are similar to what was seen at the time (Box II.1 in IEF first half 2025).

[7]/ According to the National Accounts by Institutional Sector report, in the second quarter this year, gross disposable household income increased by 9.1% in nominal annual terms compared to the same period last year. This result was mainly explained by production income (wages and self-employment income), which rose by 5.2% annually with an incidence of 4.3pp, followed by property income—through income withdrawals—at 3.6pp.

[8]/ In addition, the wage bill grew by 2.5% year-on-year in July 2025. More information in the September 2025 Monetary Policy Report.

[9]/ The indebtedness and financial burden reported with microdata differ from those presented in the Household Financial Survey (EFH). The EFH considers the household as the unit of analysis and collects self-reported information on total income, different types of debt (bank, non-bank, and informal), and financial burden. In contrast, the indicators presented in this section are based on administrative data, using individuals with formal employment income as the unit of analysis, limiting the universe to debtors registered in the banking system and some non-banking institutions.

FIGURE II.9 ***On aggregate, household debt has fallen slightly over the last six months.***
BANK DEBT-TO–INCOME RATIO (1)(2)
(times monthly income, median, moving 6-month average)

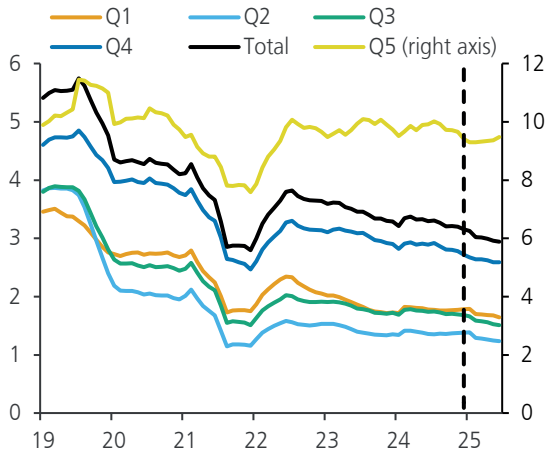


FIGURE II.10 ***The financial burden over income showed no significant changes on aggregate.***
FINANCIAL BURDEN TO INCOME RATIO (1)(2)
(percent of monthly income, median, moving 6-month average)

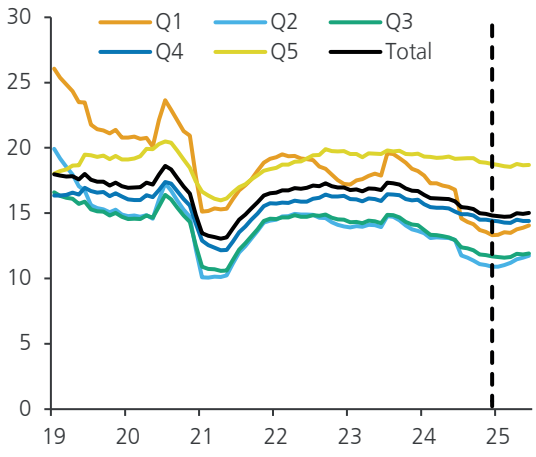


FIGURE II.11 ***There were no major changes in the amount of unpaid consumer and mortgage loans.***
UNPAID DEBT INDEX (1)(2)(3)
(percent of debt in each group)

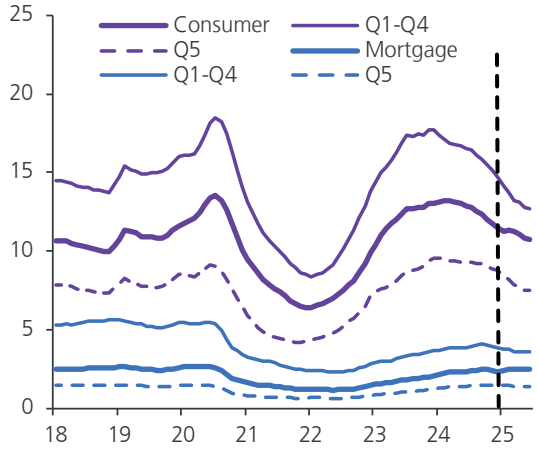
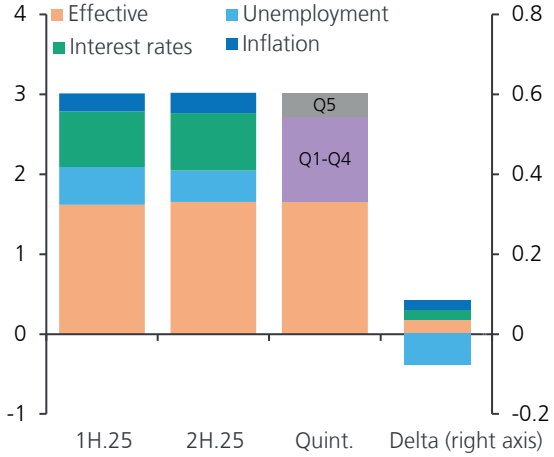


FIGURE II.12 ***Household debt at risk is similar to that of the previous IEF.***
DEBT AT RISK (1)(4)
(percent of GDP)



(1) Q1 up to $450,000, Q2 up to $680,000, Q3 up to 1 million pesos, Q4 up to 1.6 million pesos, Q5 up to 5.2 million pesos. Quintile 5 truncated at the taxable ceiling. (2) Dashed vertical line marks statistical close of the previous IEF. (3) Totals by portfolio as of August 2025. (4) Debt at risk is individual debt multiplied by the probability of default of each debtor per portfolio.

Source: Central Bank of Chile based on AFC, CMF, and SUSESO information.

HOUSEHOLDS STRESS TEST[10]/

In a scenario of severe stress, household debt at risk remains at the same level as in the previous Report. The stress scenario is characterized by a rapid increase in unemployment, higher interest rates, and higher inflation, which together erode labor income and make debt servicing more expensive. Household debt that would default stands at 3% of GDP (Figure II.12). This figure is similar to that of the previous test and slightly below the level recorded prior to 2019. Two factors explain this result. On the one hand, the initial conditions under which the stress scenario is applied worsened marginally due to a slight increase in mortgage debt actually in default. On the other hand, the growth in real wage mass, although moderate, resulted in a lower impact of the unemployment shock applied. Under the stress scenario, debt at risk remains concentrated in the lowest income quintiles. Information available after the end of the stress test (June 2025) suggests that actual debt at risk has remained stable over the past few months.

CENTRAL GOVERNMENT

As has been noted in previous reports, the persistence of structural deficits over several years has reduced fiscal space and augmented public debt. According to official projections, the central government's gross debt will reach 42.4% of GDP by the end of 2025 (IFP 2025.III) (Figure II.13). This represents an increase of 0.2 pp of GDP compared to the second quarter projection (42.2% of GDP, IFP 2025.II) and 0.7 pp of GDP compared to the end of 2024 (41.7% of GDP). The increase in debt in recent years has been mainly the result of fiscal deficits and the greater share of financial and capital expenditures, such as the so-called recognition bonuses, the purchase of the State-Guaranteed Credit portfolio, and the capitalization of public companies, among others. Although official projections indicate that the level of debt defined as prudent by the authorities will not be exceeded in the coming years, there are risk scenarios, as noted by the CFA (CFA, 2025)[11]/. All in all, Chile's credit rating was recently confirmed by Moody's (A2) and S&P (A), with a stable outlook, based mainly on expectations of fiscal consolidation in the coming years. Maintaining caution in fiscal accounts is essential for preserving adequate financing conditions for households and businesses, as well as for the economy's ability to mitigate the impact of future shocks.

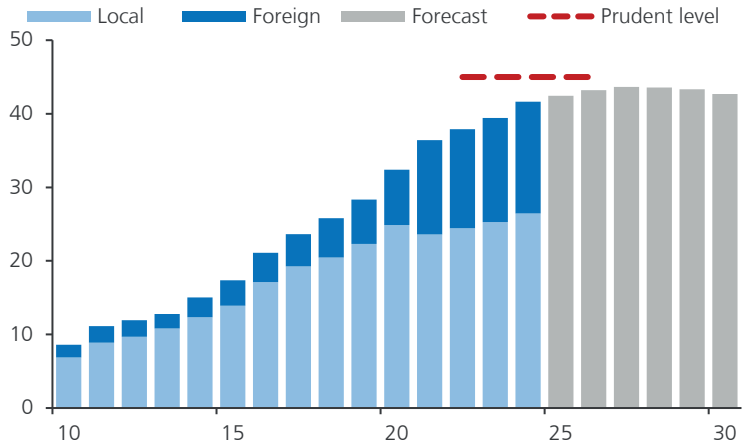
The debt maturity profile exposes it to potential increases in external interest rates. Thirty-nine percent of the central government's debt maturing in the next ten years is concentrated between 2028 and 2030[12]/. In the current scenario, it cannot be ruled out that global long-term interest rates will rise (Chapter I), worsening the conditions for renewing this debt and increasing interest expenses. In addition, 34% of the debt is denominated in foreign currency (Quarterly Report on Central Government Gross Debt, June 2025), meaning that its cost is also exposed to exchange rate fluctuations, a risk that must be monitored closely (CFA, 2025).

[10]/ Stress tests assess the potential effect of shocks in scenarios of extreme stress, low probability, and high impact. These tests are partial in nature, as they do not model the reactions of agents and do not constitute projections. Further details can be found in Box V.1 of the First Half 2023 IEF and in Córdova and Toledo (2023). Three shocks are considered, in line with the severe scenario considered for the banking stress test (Chapter III). The first consists of a 7pp increase in the unemployment rate in one year. The second assumes a 680bp increase in consumer loan interest rates and a 350bp increase in mortgage rates. Finally, an indexation shock of an additional 4 pp in one year is included.

[11]/ Within the framework of Law 20,128 (on Fiscal Accountability) and through Decree 755, the current government administration establishes the basis for fiscal policy for the period 2022-2026. In this context, a prudent debt level of 45% of GDP has been determined.

[12]/ A 37% of total sovereign bonds will mature between this year and 2030.

FIGURE II.13 ***The central government's gross debt has increased and will reach 42.4% of GDP by the end of 2025.***
CENTRAL GOVERNMENT GROSS DEBT (*)
(percent of GDP)



(*) Gray area shows forecasts in the Public Finances Report of third quarter 2025, Dipres.
Source: Central Bank of Chile based on information from Dipres, Finance Ministry's budget office.

BOX II.1:

Household liquidity and demand for consumer loans in light of the Household Financial Survey

Since the outbreak of the pandemic, consumer credit has been weak, with prolonged periods of real contraction. During 2020 and 2021, lending fell sharply, with a partial and temporary recovery in 2022. Since then, growth rates have been moderately negative (IEF second half 2024 and first half 2025), showing an incipient real annual recovery at the peak. Consistent with these developments, the recently published 2024 Household Financial Survey (EFH) reports a significant reduction in consumer debt holdings—the share of households reporting debt for these purposes—especially for installment bank loans (Figure II.14).

The EFH 2024 collects important information on the financial situation of households, particularly their indebtedness and the reasons for it, providing insight into and contributing to the understanding of the fragility of consumer credit. The survey shows an increase in the proportion of debt-free households, from 33.6% in 2017 to 48.6% in 2024, consolidating the sharp decline in borrowing observed in 2021 (EFH 2024). Meanwhile, the burden-to-income ratio indicator—RCI, which measures the percent of monthly income that a household allocates to debt repayments—stood at 26.4% in 2024, not far from the level of 24.7% in 2017. The proportion of households with an RCI above 40% declined from 21.7% in 2017 to 17.4% in 2024. In addition, the 2024 EFH shows no evidence that households are turning to alternative sources of financing: the holding of "other non-bank debts" stands at 6.0%, which is even lower than in 2017 (6.8%). Finally, the proportion of households that have not applied for a loan in the last year has risen with respect to 2017 (from 83% to 89%). Among them, those who state "not needing it" as the main reason also increase compared to previous rounds (Table II.1).

Various factors have contributed to households' lower demand for financing, including greater liquidity received during the pandemic. As a consequence of measures such as authorized pension fund withdrawals, households obtained liquidity that they accumulated in checking and demand deposit accounts (Cerletti et al., 2025), as well as in time deposits. This greater liquidity caused a drop in the short-term debt of some households: in addition to the payoff of previous debts (Cerletti et al., 2023), it also meant a lower probability of subsequently demand credit. These balances have gradually declined and are currently slightly above their pre-pandemic levels (Figure II.15)

The liquidity received by households during the pandemic could also have had an indirect effect, through a reduced need for funds to purchase durable goods. Spending on durable goods expanded significantly between the third quarter of 2020 and the end of 2022 (Figure II.15), driven largely by the liquidity provided by pension withdrawals and the "IFE Universal", a wide-ranging pandemic-related subsidy (Hadzi-Vaskov et al., 2025). Since 2023, this spending, as a percent of GDP, has contracted and remains below its pre-pandemic level, consistent with the infrequent purchase of durable goods (Adda and Cooper, 2000; Mian and Sufi, 2009). The various waves of the EFH have consistently shown that the main motivation reported by households for taking on consumer credit is the purchase of vehicles and other durables (Table II.2), in line with international evidence on the link between purchases of durables and household indebtedness (Bank Lending Survey, 2020; Gavazza and Lanteri, 2021). Therefore, when this spending category weakens it could in turn contribute marginally to lower demand for credit.

Going forward, it is important to continue monitoring the various factors that affect short-term household borrowing. In particular, the persistence of the channels highlighted in this box will depend, on the one hand, on the speed with which households reduce their liquid assets and the depreciation of durable goods purchased during the pandemic. Other important factors, usually monitored in the IEFs, include household income, savings, and the ability to cope with unexpected expenses. The 2024 EFH Survey will allow for a more detailed exploration of the situation of households in several of these dimensions.

FIGURE II.14 ***Consumer debt has fallen from its pre-pandemic level***
CONSUMER DEBT HOLDINGS (1)
(percent of households)

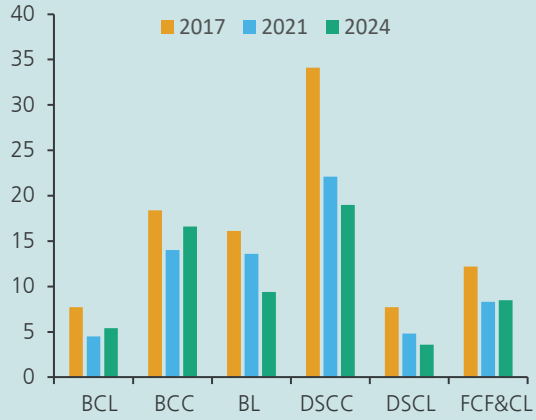
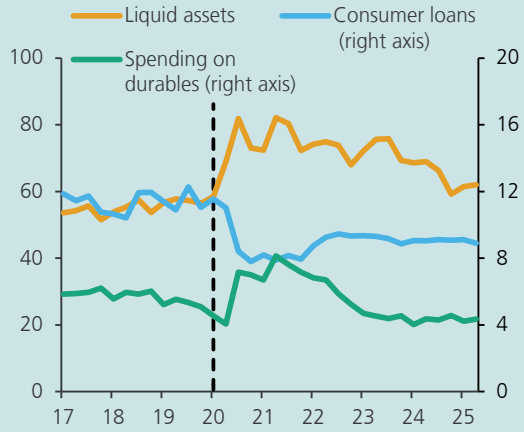


FIGURE II.15 ***Liquid assets and spending on durable goods grew strongly during the pandemic, while consumer loans contracted***
LIQUID ASSETS, CONSUMER LOAN FLOW, AND SPENDING ON DURABLE GOODS (2)
(percent of GDP)



(*) Fraction of households reporting each type of debt. BCL: bank credit lines BCC: bank credit cards. BL: bank consumer loans. DSCC: deparment store credit cards. DSCL: deparment store credit loans. FCF&CL: loans from family compensation funds and cooperatives. (2) Based on series at constant 2021.IV prices. Left axis: Liquid assets: balances in checking accounts, demand accounts, and time deposits of individuals, as a percent of GDP. Demand deposits and time deposits of individuals were imputed for the period 2017-2018. Right axis: Spending on durables: spending on durable goods by households and IPSFL as a percent of GDP. Consumer loans: flow of consumer bank loans, as a percent of GDP. Based on individual balance sheets, excluding revolving credit cards. Dashed vertical line marks onset of Covid pandemic.

Source: Central Bank of Chile en base a información de EFH.

TABLE II.1 ***According to the 2024 Houshold Financial Survey (EFH), the fraction of households not applying for a loan and saying they don't need one increased***
CREDIT APPLICATIONS AND REASONS FOR NOT APPLYING (3)
(percent of households)

Housholds not applying for a loan	2017	2021	2024
Did not apply	82.6	90.0	89.3
Reason for not applying			
Does not need it	38.6	40.9	49.2
Does not like to apply for loans	30.7	24.0	20.3
Would be unable to make the payments	17.3	20.1	17.9
Would not be approved	11.3	3.7	3.4
Other reasons	2.1	11.4	9.1

TABLE II.2 ***The main reason for using consumer debt is the purchase of durable goods***
MOTIVATIONS FOR BORROWING (4)
(percent of households)

Motivation	2017	2021	2024
Vehicles and other durable goods	28.3	34.9	28.2
Merchandise and other non-durable goods	12.0	13.7	19.3
Paying off other debts	14.2	13.6	12.5
Clothing purchases	11.5	5.2	7.1
Medical treatment	6.3	7.6	6.7
Renovations	5.5	6.8	6.7
Other	22.2	18.3	19.5

(3) Percent of households that applied for loans or an increase in credit limit in the 12 months prior to the interview, and percent that cites as the main reason for not applying for a loan among those who have not requested a loans or raised credit limits. Other reasons include: Not meeting minimum requirements (2021 and 2024) and Very high interest rates (2024). (4) Main motivation for applying for consumer credit, conditional on holding. Excludes educational loans.

Source: Central Bank of Chile based on Household Financial Survey, EFH.

III. CREDIT LENDERS

The local banking system is in a financial standing that would allow it to weather the risks of the macro-financial scenario. Its capital and liquidity levels exceed regulatory requirements, and profitability is slightly above historical averages. Credit remains weak, although incoming data shows some signs of a rebound. Meanwhile, delinquency rates are seeing some stabilization, which would be covered by the provisions and guarantees available to banks. Stress tests indicate that banks remain solvent in the face of a severe adverse scenario. Under the most demanding CET1 metric, the results suggest that banks are well prepared to withstand a shock but might use part of the buffers set aside for such scenarios.

LENDERS' SITUATION

Since the previous IEF, bank lending has shown some signs of recovery, mainly associated with the commercial portfolio. Total bank lending has shown positive variations in recent months, unlike the declines recorded until the previous IEF. The stock of commercial loans has risen in recent months, contrasting with the contractions of the previous three years (Figure III.1). In this portfolio, credit supply conditions have remained stable, while interest rates at different maturities have declined in line with their benchmark rates. This scenario would reflect a demand that remains weak, but with some signs of an incipient recovery. This is also suggested by the results of the most recent Business Perceptions Survey (EPN) and Bank Lending Survey (ECB). Meanwhile, the expansion of consumer loans is explained by the growing use of credit cards, mainly those issued by business support entities (SAG)[1]/. Housing loans continue to grow steadily (1.5%), with a recent increase in mortgage flows, reflecting the impact of the Fogaes housing program (Chapter II).

Bank credit risk indicators have stabilized. The proportion of the commercial portfolio in arrears stands at around 2.6% of loans, fairly unchanged from the previous Report, although above its historical averages (Figure III.2). Similarly, defaults on commercial loans have shown some improvement compared to the last IEF (Chapter II). Delinquency in the consumer segment has not changed significantly since the last IEF, while delinquency in the housing segment has slowed. Likewise, provision coverage has remained largely unchanged, although somewhat below historical patterns for the commercial and housing portfolios, given the greater use of collateral coverage (statistical annex).

[1]/ These are bank subsidiaries created with the purpose of facilitating the fulfilment of their functions or performing certain operations relating to banking activities, without collecting deposits from the public.

FIGURE III.1 ***The annual variation in credit stock has shown some signs of recovery.***
LENDING GROWTH (1)(2)
(real annual change, percent)

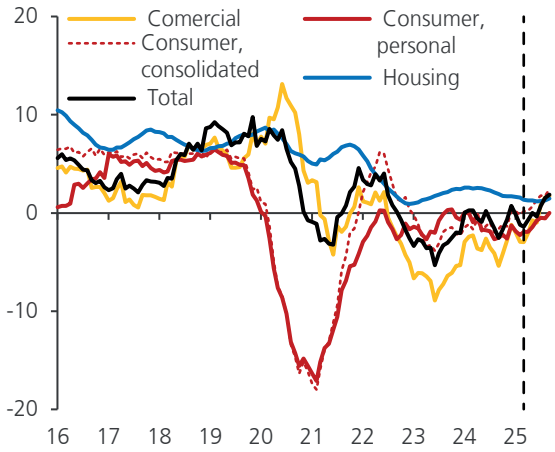


FIGURE III.2 ***Delinquency ratios has stabilized***
BANKING SYSTEM'S DELINQUENCY RATE (1)(3)
(percent of respective portfolio loans)

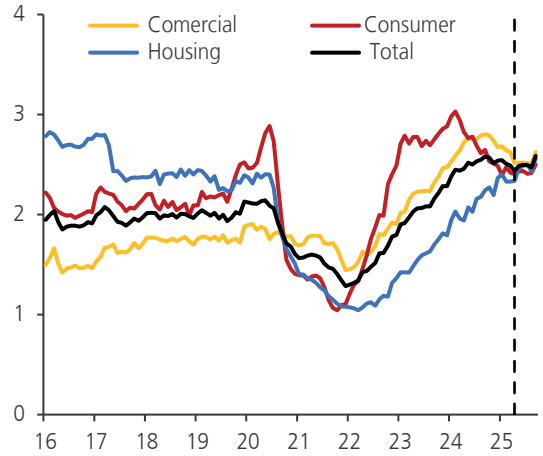


FIGURE III.3 ***SAG and NBFIs explain the greater dynamism of the consumer portfolio***
CONTRIBUTIONS TO CONSUMER GROWTH (4)
(annual percent)

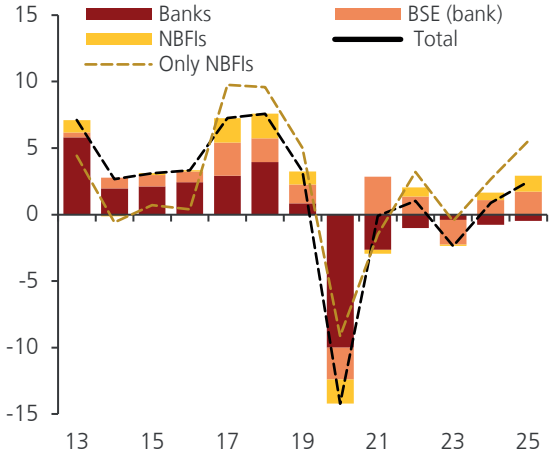
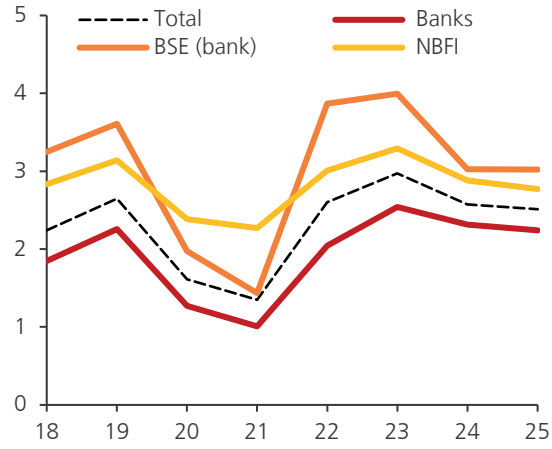


FIGURE III.4 ***Consumer loan delinquency remains stable***
CONSUMER LOAN DELINQUENCY INDICATOR BY AGENT (4)(5)
(percent)



(1) Dashed vertical lines mark statistical close of previous IEF. (2) Ind: individual, cons: consolidated. Based on individual financial statements, except for total and local consolidated consumption, which includes loans from Sociedades de Apoyo al Giro (business support entities). (3) Delinquency corresponds to payments 90 days or more past due. Information based on locally consolidated financial statements. (4) Information at December of each year, except for 2025, which uses data up to June. (5) Delinquency refers to payments in arrears for 90 days or more. SAG: business support entities. NBFI: non-bank financial institution.

Source: Central Bank of Chile based on information from the CMF.

Non-bank financial institutions (NBFIs)[3]/ have increased their loans and stabilized their delinquency rates. The growth in consumer credit from NBFIs was 5.5% annually at the second quarter, outperforming banks (Figure III.3). This growth was driven by family allowance compensation funds, followed by savings and loans cooperatives, while credit from automotive purchase financing firms continues to decline. Meanwhile, delinquency rates at these non-bank institutions show a slight decline at June 2025, in line with the trend of banks and SAGs during said quarter (Figure III.4).

The banks' funding structure and liquidity indicators show no major changes. Banks have maintained their funding structure since the previous Report, with retail deposits accounting for 18.4% of liabilities and the share of institutional investors lower than that those recorded before 2019. On the other hand, debt financing exceeds 24% of liabilities. In this regard, there has been an increase in external debt and a stabilization of local issuance. Meanwhile, spreads on bank bonds in the secondary market have decreased from the previous Report. For its part, the liquidity coverage rate (LCR) remains on average 96pp above regulatory requirements, sufficient to meet short-term commitments and absorb exchange rate volatility. Likewise, the net stable funding ratio (NSFR) is well above its requirement in full implementation, which allows for an increase in lending while meeting regulatory limits.

Bank profitability is similar to that in the previous Report and close to its historical average. Return on assets (ROA) remains above the average observed over the last decade, reaching 1.3% at the close of this Report, as operating expenses remain low and provision expenses have decreased. Interest margins have remained stable, while indexation margins have narrowed in line with lower inflation and an unchanged UF mismatch. Return on equity (ROE) declined slightly, unlike ROA, due to reduced leverage resulting from capital accumulation in the context of the implementation of Basel III standards (Figure III.5).

Regulatory capital ratios have not changed significantly since the third quarter of 2024, while capital requirements have increased. Regulatory capital has remained stable, with a CET1 ratio of around 12%, reflecting the fact that banks have continued to adapt to the new Basel III requirements, whose implementation process ends in December this year (Figure III.6). Capital accumulation by banks, including perpetual bond issues, and the availability of regulatory buffers have played an important role in strengthening the system's capacity to absorb financial shocks.

External risks could affect local banks by increasing their funding costs and credit risk. A tightening of global financial conditions would raise long-term rates across the board, including in Chile. This would result in higher long-term funding costs for banks, reducing their profitability and decreasing lending activity in longer-term operations such as mortgages. Higher long-term interest rates also reduce the value of banks' assets included in their trading book. At the same time, a more depressed global economic scenario would increase the credit risk of those bank debtors exposed to foreign trade. Exporters and their suppliers account for around 17% of banks' commercial portfolios (Box III.1 IEF first half 2025). The stress tests reported below indicate that the banking system seems well prepared for a shock that raises long-term growth rates and increases the risk of its credit portfolio.

[2]/ These entities include retail stores (CC), clearing and family allowance funds (CCAF), savings and loans cooperatives (CAC), and car financing companies.

FIGURE III.5 ***ROE increases less than ROA due to higher capital***
PROFITABILITY AND LEVERAGE (1)
(percent, times)

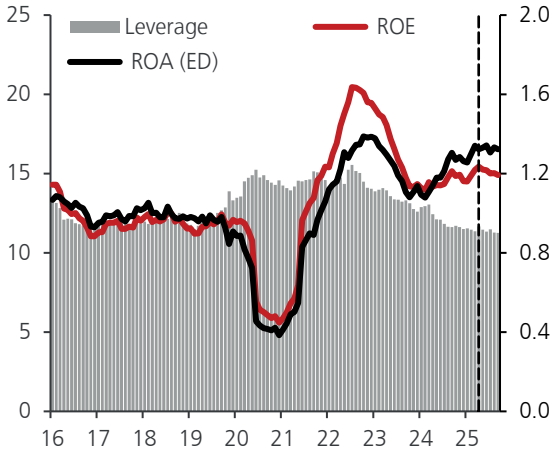
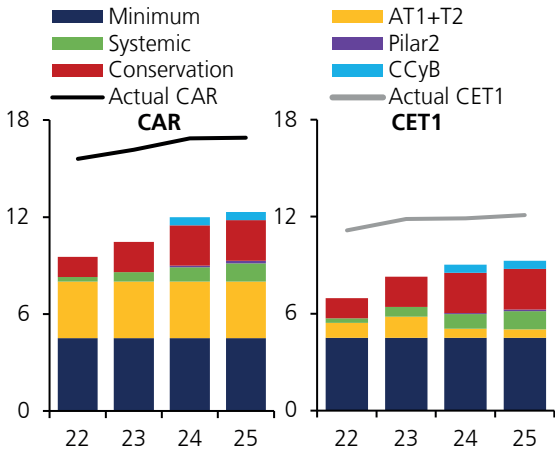


FIGURE III.6 ***Banks show capital ratios above regulatory limits***
SYSTEM'S CAPITAL REQUIREMENTS (2)
(percent of RWA)



(1) Leverage is measured as the ratio of total assets to capital. Dashed vertical line marks statistical close of the previous IEF. (2) Information at December of each year. Actual capital data at August 2025. Figures for buffers as of December 2025 consider the Basel III convergence calendar.

Source: Central Bank of Chile based on CMF information.

EVALUATION OF STRESS SCENARIOS[3]/

The banks' capital and liquidity levels are sufficient to enable them to remain solvent in a scenario of severe stress. The stress test considers a scenario of abrupt contraction in activity, accompanied by an increase in banks' funding costs, a decline in domestic demand, and a deterioration in financial conditions (statistical annex). As in the previous IEF, a shock of 200 basis points in long-term interest rates and 300bp in short-term interest rates is considered. In addition, an increase in exchange rate volatility of 16% and a 20% depreciation of the Chilean peso are added, following the usual methodology. The test is based on the banks' financial accounting information at June 2025[4]/.

The impact of market risks remains contained and similar to that observed in the previous Report. Compared to the previous exercise, currency risk has decreased marginally, along with a slight decline in currency mismatches. Meanwhile, losses from valuation risk[5]/ and repricing[6]/, as a result of interest rate shocks have increased somewhat. Despite this change, the banking system maintains a los term mismatch, which holds down its exposture to repricing risk (Figure III.7).

[3]/ Based on the methodology described in the IEF second half 2013 and in Martínez et al. (2017). Both the analysis and its results are regularly communicated to the CMF. Furthermore, given their nature, they should not be considered as forecasting exercises.
[4]/ Stress tests are performed every six months based on accounting information at December for the first half of the year and June for the second half.
[5]/ Valuation risk refers to the potential loss in the present value of trading instruments and available-for-sale instruments recorded in the Trading Book due to an increase in interest rates.
[6]/ Repricing risk refers to potential losses due to changes in interest rates, which affect interest income and expenses on assets and liabilities.

Credit risk related losses are marginally lower than in the previous exercise, mainly due to lower exposure to this risk. Exposure to credit risk relative to capital declined due to the contraction in commercial and consumer lending between December 2024 and June 2025, which reduced the impact of stressful scenarios on banks' results. This was partly offset by a slight increase in risk indicators for the housing portfolio compared with the previous exercise. Thus, the capital loss due to credit risk under the severe scenario would translate into a loss of 14.6% of capital, slightly less than the loss in the previous exercise (15.8%) (Figure III.7).

The results suggest that banks continue to have total capital buffers in a scenario of severe stress. Initial capital, measured using the capital adequacy ratio (CAR), showed some improvement compared to the previous exercise. The destruction of capital resulting from the stress scenario—equivalent to the difference between initial and final capital—reaches 2.5pp, similar to the previous Report (Figure III.8). Thus, the stress tests show that the current level of capital allows banks to face a stress scenario without affecting their solvency position. Likewise, the results of the exercise show that the system has adequate levels to complete the final stage of implementation of the new Basel III capital requirements[7]/ in December this year (Figure III.9).

The banking system also maintains its capacity to absorb losses caused by severe shocks under the most demanding CET1 metric, but some would use up part of their buffers. In the stress scenario, the banking system would destroy 2.3pp of CET1, while the buffer would remain stable with respect to the previous exercise (Figure III.9). Consequently, even after applying the stress scenario, the banking system would still be above the minimum regulatory requirements, considering a release of the CCyB by the authority and the availability of the conservation buffer, both of which are intended to be used in such circumstances. However, a short distance from the buffers and the increased likelihood of some banks using the conservation buffer in a stressed scenario could generate an additional effect on credit, which will continue to be monitored closely.

The banking system has sufficient liquidity to withstand an extreme scenario. Liquidity stress tests are based on the availability of liquid assets to cover stressed net outflows over 30 days, as reflected in the LCR metric. The results indicate that the system has sufficient buffers to absorb deposit outflows in excess of regulatory requirements, currency depreciation, and interest rate shocks, which would reduce the value of its assets.

[7]/ Traditionally, stress tests have been used to analyze risk evolution and assess banks' solvency capacity and position in a severe scenario. To face such a scenario, banks have at their disposal both their core capital or highest-quality capital or loss-absorbing capacity and other instruments included in the CAR, which play a role in the event that the bank enters resolution (e.g., subordinated bonds).

FIGURE III.7 ***Risk-related losses show some reduction compared previous exercise***
CREDIT AND MARKET RISKS OF THE SYSTEM (1)
(percent of core capital)

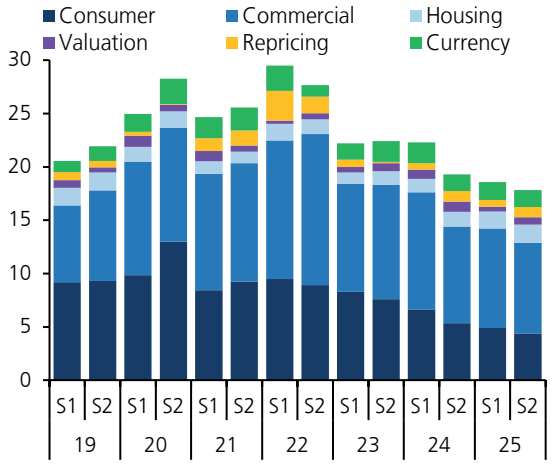


FIGURE III.8 ***The destruction of capital under stress shows no significant changes***
IMPACT OF THE STRESS SCENARIO ON THE CAPITAL ADEQUACY RATIO (2)
(percent of risk-weighted assets)

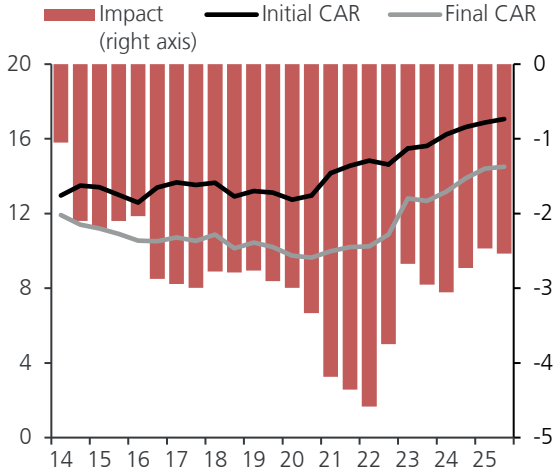
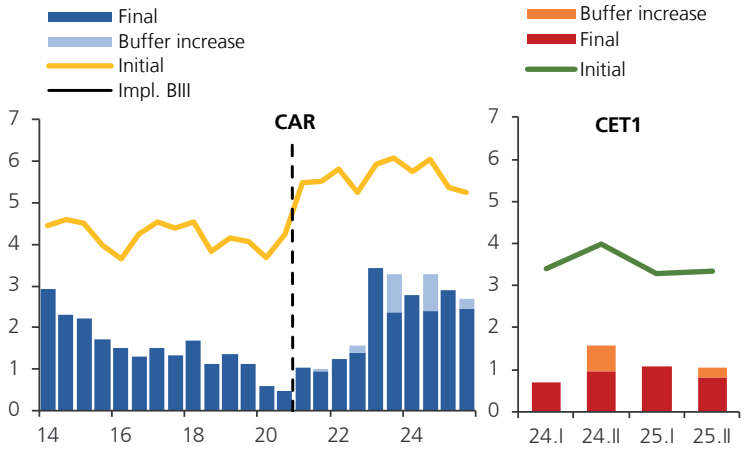


FIGURE III.9 ***The banking system shows capital buffers above regulatory requirements under a severe stress scenario***
CAPITAL HEADROOM UNDER SEVERE STRESS SCENARIO (3)
(percent of risk-weighted assets)



(1) Starting in 2021, consumer SAGs are considered in credit risk. (2) Considers reinvestment of profits. (3) Excess effective equity (CAR) and core capital (CET1) over the regulatory minimum and buffers, respectively. Does not include the CCyB in the stress scenario. Considers the specific limits of each bank. Dashed vertical line marks the start of Basel III implementation schedule. For the IEF exercises in the second half of 2021, 2022, 2023, 2024, and 2025, the solid bar shows the final buffer with the limits in force as of December of each year, in accordance with the Basel III gradual implementation schedule, while the textured bar uses the limits in effect in June.

Source: Central Bank of Chile based on CMF information.

IV. FINANCIAL POLICY DEVELOPMENTS

At the Financial Policy Meeting (RPF) for the second half of 2025, the Board of the Central Bank of Chile decided to maintain the Countercyclical Capital Buffer (CCyB) at 0.5% of risk-weighted assets (RWA). This decision considered both the policy framework announced in November 2024 and the convergence towards the Basel III capital requirements during this year. This year, the BCCh's financial regulation agenda has focused on initiatives related to implementing the Resilience Law, prioritizing in this chapter the exercise of the BCCh's new powers with regard to financial market infrastructures. Finally, the Bank's role in the pension system is explained in the context of the reform approved last semester.

The Basel III capital requirements are structured into components aimed at strengthening the resilience of the banking system from a micro- and macro-prudential perspective. These requirements operate as an integrated system combining minimum requirements, and additional structural and contingent requirements. This structure seeks to ensure the solvency of individual institutions (micro-prudential dimension) and strengthen the resilience of the banking system as a whole in the face of severe stress scenarios resulting from the materialization of systemic risks (BCCh, 2024) (macro-prudential dimension) (Table IV.1).

International experience has shown different approaches to coordinating the role of macro- and micro-prudential authorities. In Chile, formal coordination between the micro-prudential authority (CMF) and the macro-prudential authority (BCCh) is conducted under the Favorable Prior Report (FPR) scheme, which is required on a reciprocal basis, as appropriate (Art. 67, General Banking Law). The implementation of this legal requirement is accompanied by a process of ongoing coordination between the two institutions.

TABLE IV.1 ***Banking capital requirements have evolved by incorporating micro- and macro-prudential components.***
CAPITAL REQUIREMENTS FRAMEWORK

	Regulatory approach	
Requerimiento	Micro-prudential	Macro-prudential
Minimum or structural	Determination of risk weighted assets (RWAs) for minimum requirements for credit, market, and operating risk (1)	Conservation buffer
Contingent	Requirements associated with the supervisory review process - Pillar 2	Countercyclical Capital Buffer (2) Capital Requirement for Systemically Important Banks (DSIBs)

(1) All requirements for the remaining quadrants of the table are defined in terms of effective equity over RWA. In this sense, although the determination of RWAs has a micro-prudential focus, its impact is key to the entire capital structure of the banking system. (2) In the case of Chile, the BCCh has established a logic that seeks to maintain a relatively stable value for the CCyB although, exceptionally, in a context of a significant increase in systemic risk, greater than its standard level, the CCyB could be set above the NCCyB, in order to have a greater capacity to respond to a stressful episode.

Source: Central Bank of Chile

MACRO-PRUDENTIAL BANK CAPITAL REQUIREMENTS

Among the Basel III bank capital requirements, the countercyclical capital buffer (CCyB) and the capital surcharge for systemically important banks play a key role (Box IV.1, IEF first half 2024). The CCyB, defined by the BCCh with a Favorable Prior Report from the CMF, aims to preserve the resilience of the banking system and facilitate the provision of credit and other financial services even in the face of adverse macro-financial conditions. The systemic capital charge, defined by the CMF with the prior favorable opinion of the BCCh, applies to banks that, due to their complexity, size, and interconnections, perform functions that are critical to the financial system as a whole.

BCCh Decisions on Countercyclical Capital Buffer (CCyB)

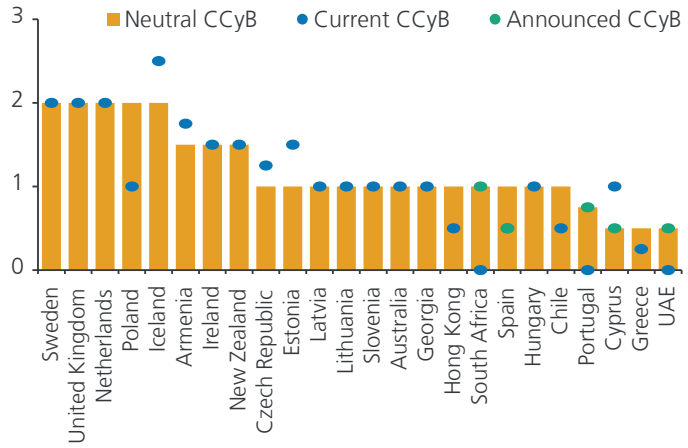
At the Financial Policy Meeting (RPF) for the second half of 2025, the Board of the Central Bank of Chile decided to maintain the CCyB at 0.5% of risk-weighted assets (RWA). The decision is part of the update to the CCyB policy framework announced at the November 2024 RPF, which established a positive neutral level (NNP) of 1% of RWA (BCCh, 2025). It was then announced that, starting with the first RPF of 2026, the Board would evaluate initiating the convergence of the buffer towards its neutral level of 1% of RWA, provided that macro-financial conditions so allow, and allowing at least one year for its build-up.

The level defined by the Board for the CCyB allows authorities to expand their response capacity in the event that risks materialize. The General Banking Law establishes that the CCyB must consist entirely of Common Equity Tier 1 capital (CET1), which is considered to be of the highest quality for dealing with stress scenarios (Box IV.1, IEF first half 2024). The current CCyB level defined by the BCCh represents approximately USD 1.5 billion in capital that could serve as a buffer which, in the event of financial stress, could be released through a reduction in the CCyB, mitigating its impact on credit and containing the amplification of the event. To date, much of this requirement has been covered by the capital buffers that banks had before the CCyB was implemented.

The precautionary and resilience-based approach to the CCyB adopted by the BCCh has gained traction among jurisdictions that have this tool at their disposal. The Bank of England pioneered the development of a policy framework in which it was possible to activate the CCyB for resilience reasons, under normal macro-financial conditions, without the economy necessarily being in an expansionary phase of the credit cycle (Bank of England, 2016). This framework has served as the basis for subsequent methodological developments in other jurisdictions that have made progress in providing greater stability to the capital charge, as in the case of the BCCh. This increases the availability of this buffer over time and, therefore, its usability in responding to different types of shocks that affect the financial system, especially those that cannot be linked to the cycle of this system. The Covid-19 pandemic was an example of this type of crisis and one of the factors that motivated a growing number of jurisdictions to adopt this approach. To date, 24 jurisdictions have established an NNP for their CCyB. Of this sample, 12 maintain this level at 1%. Since the last IEF, the CCyB has approached its neutral level in four jurisdictions[1]/. The policy approaches and levels of NCCyB defined have not varied in the jurisdictions reviewed (Figure IV.1)

[1]/ Poland, Latvia, Hungary, and Greece.

GRÁFICO IV.1 ***Most jurisdictions that have implemented an NNP are at their defined level, while others begin announcing their advance toward their neutral level.***
JURISDICTIONS WITH A DEFINED POSITIVE NEUTRAL LEVEL AND CURRENT CCYB CHARGE (*)
(percent of RWAs)



(*) Islandia y Chipre establecen una tasa mínima de RCC PN de 2 % y 0,5%, respectivamente.
Fuente: Banco Central de Chile en base a información del BIS, ESRB y páginas web de autoridades de RCC en cada jurisdicción.

Although variations exist with respect to the specific risks it seeks to cover, the NCCyB shares the common objective of strengthening resilience to financial shocks. The BCCh determines the level of the CCyB based on a comprehensive assessment of macro-financial conditions and the state of systemic risks, considering other capital requirements in effect and the costs associated with its accumulation over time (BCCh, 2024). This is in line with international practices, where the NCCyB can cover both domestic financial cycle risks and non-cyclical risks, and incorporate uncertainty regarding possible unforeseen systemic risks. This approach allows for maintaining a buffer activated on a preventive basis, even in the absence of clear signs of stress, enabling an effective response to unexpected disruptive events (Bank for International Settlements, 2024).

The possibility of increasing the CCyB above its neutral level, within our framework, would be reserved for exceptional cyclical considerations. So far, only three jurisdictions[2]/ maintain their CCyB above its neutral level, which was justified by the results of the analyses of macro-financial conditions and the credit market, as well as the results of stress tests. The rather limited possibilities originally found for establishing a CCyB level above zero are transferred to the application of the NCCyB. According to the framework established by the BCCh for the implementation of the CCyB, an increase above its neutral level would only be justified in scenarios of significant systemic vulnerability, such as credit growth that is out of line with fundamentals, high levels of leverage in households and businesses, overvalued assets due to higher risk-taking, or unusually severe external risks, all in a context where banks' balance sheets show exceptionally high activity and results.

Although the Capital Conservation Buffer (CCoB) is stable over time and uniform across all banks (2.5%), it presents a macro-prudential dimension. This capital requirement, which acts as a buffer, allows losses to be absorbed without triggering non-compliance procedures or resolution processes. This buffer, together with the CCyB, is part of the most significant innovations of Basel III as it enables more efficient capital management in periods of financial stress.

Through the Basel III implementation process, practical experience suggests that it may present some limitations related to the so-called stigma effect. Financial institutions may be reluctant to use buffers, such as the CCoB, due to concerns about how markets, including rating agencies, investors, and stock market analysts, might react to a reduction in available capital (BIS, 2022). In this sense, it is estimated that the CCyB has the advantage that it can be released by the authority in cases of systemic stress.

[2]/ The Czech Republic, Armenia and Estonia.

CMF decisions about Systemic Capital Buffers

Classifying a bank as systemic is based on a methodology that covers four dimensions: size, interconnection, substitutability, and complexity[3]/. The objective is to identify those entities whose possible disruption could have significant adverse effects on the financial system and the overall economy, and to establish measures that strengthen its resilience via an additional core capital charge, proportional to its degree of systemic importance. For the year 2025, the CMF, with the favorable prior report from the BCCh, established surcharges ranging from 1.0% and 1.5% of its RWA for the six entities identified as systemic, which will come into full effect by year-end[4]/. These measures are intended to enhance the solvency of systemic entities, by mitigating spillover risks and contributing to the stability of the overall financial system.

After five years in operation, the methodology for defining and applying systemic capital surcharges has made it possible to accumulate relevant information and experience, facilitating their technical evaluation. This methodology, issued by the CMF with the BCCh's favorable prior report (FPR), is applied annually to identify local systemic banks and calibrate their respective capital charges. This process has helped systematize key information and strengthen available databases, as well as accumulate supervisory experience. Based on these lessons learned, areas for improvement have been identified that should enhance the quality of existing information for institutions classified as systemic and establish calibration criteria to strengthen the stability and predictability of this surcharge over time.

MICRO-PRUDENTIAL BANK CAPITAL REQUIREMENTS

Most components of the Basel III capital framework have a micro-prudential objective, which is primarily associated with banks' individual risk exposures. Under this micro-prudential approach, risk-weighted assets (RWAs) are constructed based on the specific exposures faced by banks, allowing for a more accurate measurement of their risk profile. In addition, the Basel III micro-prudential framework assigns the CMF responsibility for Pillar 2, conceived as a tool to strengthen the solvency of specific institutions in the face of risks not fully covered by the standard framework.

In Chile, the adoption of Basel III in 2019 introduced new methodologies for calculating RWAs that more accurately reflect the risk profile of banking institutions. The CMF, in accordance with the provisions of the General Banking Law, incorporated standardized methodologies for risk-weighting of assets, including credit risk (CRWA), market risk (MRWA), and operational risk (ORWA), which received a favorable prior report from the BCCh[5]/. This methodological change meant that RWAs were more representative of the risk assumed by banks, compared to the fixed weightings of Basel I, which considered only credit risk. The result of this new methodology, applied since December 2021, was a 15.6% reduction in CCRWAs, which was offset by the addition of MCRWAs and ORWAs to the calculation of total RWAs (Figure IV.2).

Credit risk is the main component of RWAs, which creates incentives for banks to explore the development of internal models to calculate it. As of the end of June 2025, the composition of RWAs in the Chilean banking system continues to be dominated mainly by CRWA, which accounts for 80% of the total, followed by ORWA, which represents 11%, and MRWAs, with 9% (Figure IV.3). This distribution has remained relatively stable since banks began reporting the three components under the new regulatory framework. The high share of CRWAs in total RWAs has sparked growing interest among banks in using internal models for their estimation, which is covered by CMF regulation RAN 21-6.

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[3]/ The methodology was modified in 2024 to incorporate greater accuracy in the information received by the CMF and adjust the threshold.

[4]/ For additional details, click here.

[5]/ Until 2019, the General Banking Law defined fixed weightings that were only applicable to credit risk, in line with Basel I.

FIGURE IV.2 ***The inclusion of MRWAs and ORWAs has offset the decline in CRWAs after the implementation of Basel III.***
EVOLUTION OF RISK-WEIGHTED ASSETS (RWAS)
(MM USD)

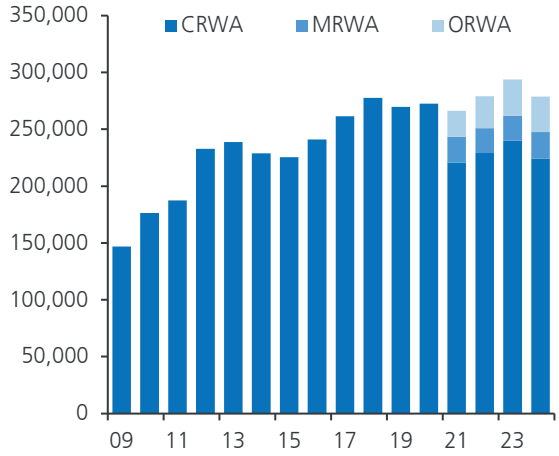
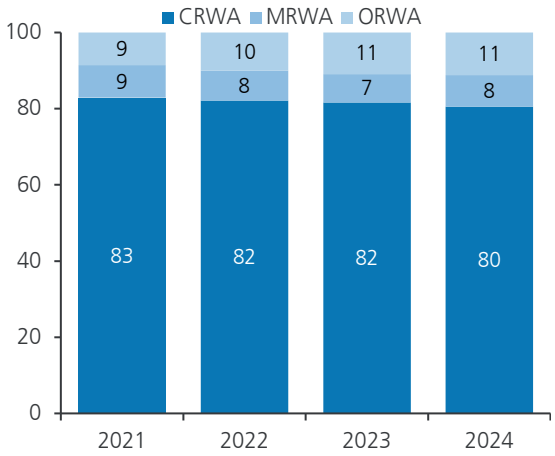


FIGURE IV.3 ***The composition of RWAs remains dominated by CRWAs, although ORWAs are gaining importance..***
COMPOSITION OF RISK-WEIGHTED ASSETS (RWAS)
(percent of RWAs)



Source: Central Bank of Chile based on CMF information.

Pillar 2 charges are applied according to each entity's risk profile, with the aim of controlling concentration risks, interest rate risk in the banking book (IRRBB)., strategic risks, and others. The CMF determines these charges by means of a reasoned resolution, within the framework of the internal capital adequacy assessment process (ICAAP), considering stress scenarios and forward-looking analysis. This tool complements the prudential framework and enhances the financial system's resilience to idiosyncratic vulnerabilities.

Six banks are currently subject to this requirement, representing a capital surcharge equivalent to 0.16% of the system's RWAs. The implementation of the Pillar 2 requirement will be gradual, with 50% of the charges defined for the six entities identified in this year's supervisory review process[6]/. /This gradual approach allows institutions to adjust their internal risk management and capital planning processes, while facilitating an orderly transition towards more forward-looking supervision based on the identification of key risks not covered by Pillar 1 requirements.

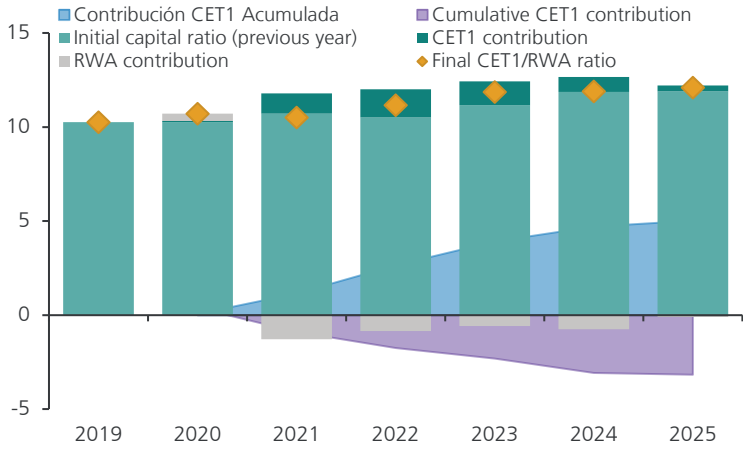
AGGREGATE BANKING CAPITAL REQUIREMENTS

In Chile, banks are gradually adapting to the requirements of Basel III[7]/. The banking capitalization index, measured as the ratio of Common Equity Tier 1 (CET1) capital to RWA, has risen steadily from 10.26% in December 2019 to 12.11% in June 2025. This increase responds to both an effective increase in CET1 and changes in the RWA composition. Figure IV.4 shows that RWAs contributed to the increase in the capitalization index in 2020, the last period in which RWA calculation remained below Basel I standards and was associated only with credit risk (CMF, 2020). Subsequently, under the Basel III regime, the incidence of RWAs has had a negative impact on the capitalization index. This impact has gradually diminished. These effects during the Basel III implementation process have been replicated globally, especially in emerging economies. In the case of advanced economies, there are examples of RWAs contributing positively to the CET1 capital ratio, partly as a result of more intensive use of internal models (BIS, 2025). It should be noted that Basel III considers the possibility of additional sources of regulatory capital, in addition to CET1 capital, such as subordinated debt and AT1 instruments.

[6]/ For additional details, click here.

[7]/ This increase in core capital by local banks is most evident during the first three years of the implementation process of the Basel III standards, which began in 2021.

FIGURE IV.4 ***The core capital to RWA ratio has risen, mainly due to the contribution of CET1.***
EVOLUTION OF CET1/RWA RATIO AND ITS FUNDAMENTALS (*)
(percent of RWAs)



(*) Las cifras del 2025 corresponden al cierre de junio 2025.
Fuente: Banco Central de Chile en base a información de la CMF.

Given the significant impact of RWAs on capitalization ratios, the implementation of internal models will pose a challenge for the Chilean banking system. Internal models for measuring risk exposures were introduced with Basel II in 2004 and were adopted mainly by advanced economies (BIS, 2006). This incorporation has allowed banks to manage capital in greater harmony with the nature of their asset portfolios. However, it has also posed challenges for supervision, as in some cases there have been incentives to underestimate capital requirements (BIS, 2013, 2016). These unintended consequences were addressed in Basel III through stricter requirements for the implementation of internal models, including a cap on the capital relief provided by internal models (known as the "output floor" in Basel nomenclature) (BIS, 2020). In Chile, considering the progress made so far in the implementation of the Basel III regulatory framework, banks may begin adopting internal models in line with CMF regulations[8]/.

THE CENTRAL BANK OF CHILE'S REGULATORY AGENDA

The BCCh submitted the proposed regulation for public consultation to recognize master agreements for repo transactions and implement close-out netting for such contracts. During the public consultation for this regulatory change, which was open between 18 July and 17 August this year, comments were received from various stakeholders, which are currently being reviewed for the purposes of final publication during this year. Briefly, the proposed regulation imposes a two-business-day suspension on the application of early termination and close-out netting clauses in specific cases related to situations of financial instability of counterparties. The regulation must recognize specific framework agreements, for which the proposal provides an open review channel, allowing recognition of agreements currently in use and, in the future, those developed by the private sector and submitted to the BCCh for these purposes.

The Bank also submitted for public consultation the proposed regulation on liquidity management for Central Counterparties (CCPs). Essentially, this regulation establishes terms and conditions for CCPs to place interest-bearing deposits at the BCCh as collateral, with the fundamental objective of reducing settlement risks in situations of financial stress.

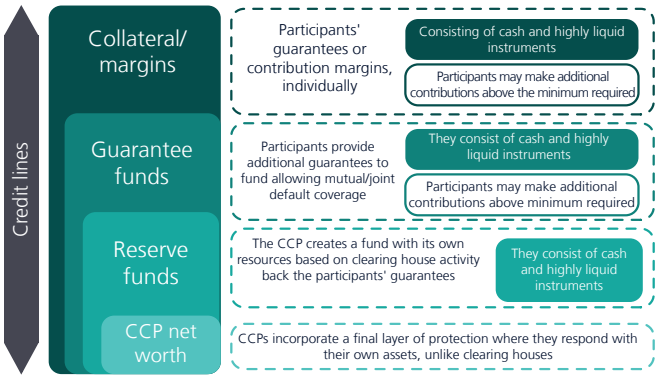
[8]/ Chapter 21-6 of the Updated Norms Compilation "Determinación de los Activos Ponderados por Riesgo de Crédito" (Determining Credit Risk-weighted assets).

CCPs are financial market infrastructures that centralize certain financial transactions, managing the default risk of their participants; specifically counterparty credit risk. To this end, they establish a cascade guarantee structure (Diagram IV.1), consisting of cash and highly liquid financial instruments that are required not only from participants but also from the CCPs themselves, thereby reinforcing confidence in their role as central intermediaries[9]/. In this collateral structure, cash in the form of deposits in settlement accounts at the BCCh offers the greatest protection, as it is immediately available to ensure the continuity of payments made in the Real-Time Gross Settlement system (RTGS system) operated by the BCCh and is not subject to the risks of settling assets in the market, which is particularly challenging in stress conditions. In Chile, there are two CCPs: one that processes assets traded on the stock market and another that clears and settles assets traded on the over-the-counter (OTC) derivatives market. Currently, the latter manages cash collateral in accounts in the BCCh's RTGS system. Figure IV.5 shows the evolution of the proportion of daily collateral stock held in cash in BCCh accounts between August 2018 and August 2025.

Internationally, it is considered that a higher level of cash collateral is key to managing settlement risks for CCPs, facilitating the effective resolution of potential defaults and preventing them from leading to a systemic crisis. The benefits of cash collateral for CCPs are well documented, and it has been shown that, in times of stress, participants in these infrastructures increase their level of cash collateral held in central bank accounts (Aldasoro et al., 2023; Sklar, 2020). For this reason, many central banks have implemented mechanisms to remunerate cash collateral held by CCP participants in their settlement accounts, with the aim of encouraging this type of deposit under normal market conditions.

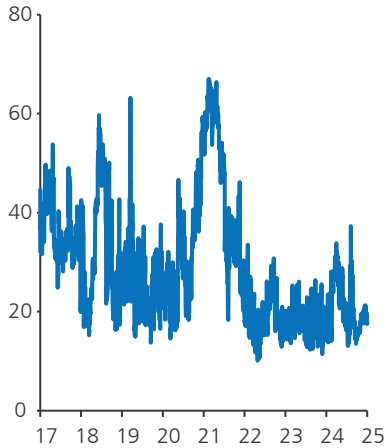
As planned, the BCCh will publish for consultation this semester a proposal for a regulatory framework that will allow certain non-bank entities to expand access to its RTGS system. The proposal defines the new types of participants that will be able to operate in the RTGS system, along with the requirements they must meet for that purpose, considering the diverse nature of these new entities (Diagram IV.2). The main purpose of this initiative is to modernize the financial market infrastructure, to continue promoting risk mitigation for financial stability, and to contribute to the secure and efficient settlement of payments for a wide range of economic transactions[10]/.

DIAGRAM IV.1. ***To manage the default risk of their participants, CCPs establish a cascade collateral structure.***
CENTRAL COUNTERPARTY SAFEGUARD CASCADE



Source: Central Bank of Chile.

FIGURE IV.5 ***Cash collateral deposited in settlement accounts at the BCCh offers the highest security.***
CASH COLLATERAL BY OTC DERIVATIVES CCP PARTICIPANTS
(percent of total collateral pledged)



[9]/ For details on CCPs and their role, see Box II.1 in Payment Systems Report, 2022.

[10]/ To learn more about the new participants allowed, see Payment Systems Report, 2025.

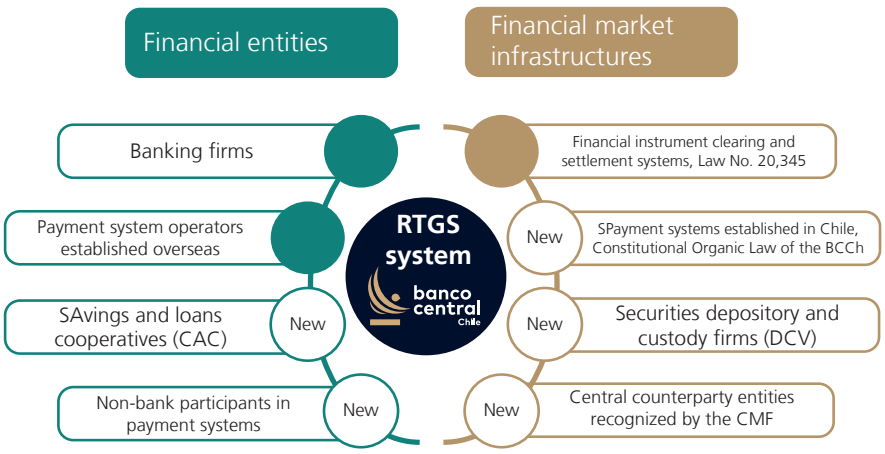
FOLLOW-UP ON INITIATIVES BY OTHER INSTITUTIONS

With the aim of improving liquidity conditions in the secondary market for sovereign fixed income, the Ministry of Finance is promoting a "Market Makers Program" (MMP). Over the last twenty years, the public debt market in Chile has undergone various advances and modernizations, with the introduction of UF-denominated issues, the inclusion of sovereign debt in international benchmark indices, and the incorporation of international custodians to facilitate the participation of foreign investors, among others. However, the secondary market for public debt exhibits low levels of liquidity and depth, particularly in certain segments of the yield curve. A MMP consists of a special transactional environment in which specific financial institutions provide liquidity to sovereign securities by maintaining bid and ask prices on a trading platform, which adds transparency to the system. It should be noted that, as long as the MMP includes the possibility of repo transactions on sovereign fixed-income instruments, this initiative would complement the publication of the BCCh regulation for the close-out netting of these transactions (Box IV.1).

The implementation of the Consolidated Debt Registry (REDEC) continues to advance with the publication of its regulations and the list of reporting entities. In July 2025, the CMF published General Rule Nº. 540, which governs the criteria for defining the list of entities reporting to the REDEC, their obligations regarding the type and frequency of information to be submitted[11]/, the management of consents and requests for updates, corrections, additions, or cancellations by debtors, in addition to information security requirements, to name a few. In accordance with the implementation deadlines defined in the Law and the aforementioned regulation, Redec will come into force on 1 April 2026 and, in this regard, the CMF will have the system up and running during the month of November 2025, so that financial institutions can start submitting files from the first Friday of that month.

A diverse group of financial institutions will be required to report to REDEC and will be able to access this information provided that it relates to their own debtors or they have the consent of the person whose credit risk they wish to assess. The registry will contain positive and negative information from banks, insurance companies, mutual lenders, credit card issuers, clearing houses, savings and loans cooperatives supervised by the CMF, and securitization companies. In this first stage, it will also include mass-market credit providers and have reported their operations to the CMF over the last three years for the purpose of controlling the statutory maximum interest rate. This group includes several auto loan providers and savings and loans cooperatives not supervised by the CMFI[12]/.

DIAGRAM IV.2 ***The BCCh will publish for consultation a proposal to extend access to the RTGS system to certain non-bank financial institutions.***
ACCESS FOR NEW PARTICIPANTS TO THE RTGS SYSTEM



Source: Central Bank of Chile.

[11]/ The reporting instructions are contained in the REDEC Information System Manual. These instructions consider credit transactions in their various classifications (consumer, commercial, housing, etcetera), contingent credits, and leasing transactions as reportable obligations. In this first stage, the CMF decided not to include factoring transactions.
[12]/ The list of these additional reporting entities was defined by the CMF through Exempt Resolution No. 7323, published on 23 July 2025.

The CMF continues to implement FinTech Law and the technical aspects of the Open Finance System (SFA). In July 2025, a regulation proposal was published for consultation setting out the technical specifications to enable the SFA Participant Directory, the security and operational requirements for connection interfaces, and the generation and management of user consent, inter alia. Once these definitions are published, a 24-month period is envisaged for implementing the first stage. In the case of banks, payment card issuers, and account providers, the deadlines are reduced to between six and eighteen months from the publication of the aforementioned regulation, depending on the type of information they must make available to new FinTech service providers.

THE BCCH'S ROLE IN THE PENSION SYSTEM WITHIN THE CONTEXT OF THE REFORM

Historically, the powers that the BCCh has held over the pension system have been limited and linked to its institutional role. Among these powers, the one that stands out is that of defining a set of structural investment ceilings. In accordance with the provisions of the current legal framework, the Bank has a set of functions and powers by virtue of its role as the monetary and foreign exchange authority. This set of powers is complementary to the supervisory role assigned by law to the Superintendence of Pensions (SP). In particular, with regard to PF investments, the BCCh is responsible for setting a set of structural investment limits: maximum investment limits, by type of fund, in public and BCCh debt securities, in instruments of foreign issuers, in certain instruments of higher relative risk, in alternative assets, and in AT1 instruments. In addition, at the administrator level, the BCCh must set a ceiling on foreign investment and establish the value of the single multiple to determine the maximum investment in debt instruments of the same bank or financial institution. In all these cases, the legal framework establishes an explicit numerical range within which the BCCh must set each limit.

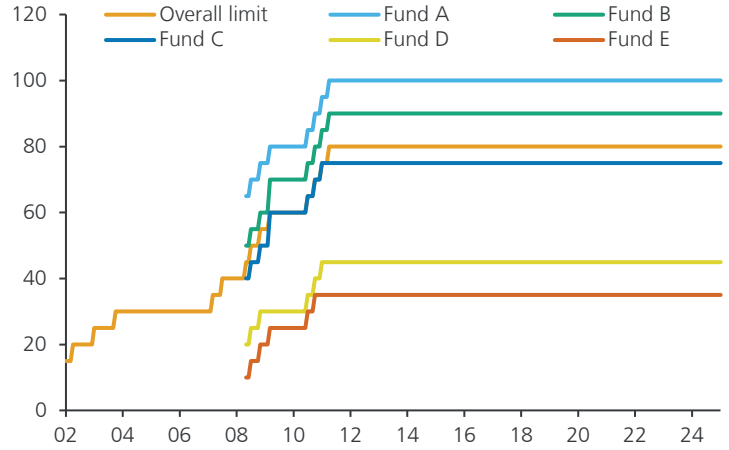
In accordance with its mandate, the BCCh has adopted its policy decisions on investment limits by applying a criterion of macro-financial stability, always considering the background and vision of the supervisor. In exercising these legal powers, the Bank's strategy has been characterized by the gradual implementation of changes in the various investment limits, understanding the definition of these parameters as policy instruments to safeguard the proper functioning of the financial system and mitigate systemic risks, with the aim of minimizing potential market frictions and avoiding destabilizing effects, in line with its institutional role of ensuring financial stability (Figure IV.6). Likewise, in coordination with the Superintendence of Pensions, the BCCh's decisions in this area have also extended pension funds' access to various risk-return combinations, for the benefit of their affiliates.

Under the Pension Reform approved last January, the BCCh maintains its institutional role, although with fewer direct powers in setting investment limits, in line with a context of greater flexibility, necessary for the adoption of the new Generational Funds (FFGG) scheme. At the institutional level, the reform creates the Autonomous Pension Protection Fund (FAPP) with the aim of financing Social Security benefits. Although the nature of the BCCh's powers remains unchanged, the number of structural investment limits it must set for the new FFGGs and the FAPP is reduced (Table IV.2). In particular, the BCCh must set the following overall investment limits for FFGGs of the same administrator: the maximum limit for investment abroad, within the range of 50% to 80% of the total value of said funds, and the maximum limit for investment in local sovereign instruments and those issued by the BCCh itself, within the range of 30% to 80% of the total value of the funds. Additionally, for the FAPP, the BCCh must set the maximum limit for investment overseas within the range of 50% to 80% of the fund's value, and the ceiling for investment in local sovereign instruments and those issued by the BCCh within the range of 30% to 80% of the fund's value.

Additionally, the BCCh has a set of powers unrelated to the definition of structural investment limits, which remain unchanged by the reform, by virtue of its institutional role. In particular, the BCCh must contribute with its favorable prior report to the definition of foreign exchange hedging established by the SP, as well as the authorization by the Superintendence of certain specific investment instruments, operations, and contracts. Likewise, the BCCh defines the "formal secondary markets" for the transaction of financial instruments by the pension funds, and determines the entities authorized to exercise custody of foreign investments of the PFs.

The regulation of foreign exchange hedging for pension funds is established by the Superintendence of Pensions, subject to approval by the Central Bank of Chile. This is one of the institutional coordination mechanisms that remain in place after the approved reform, and it is one of the dimensions that will need to be reviewed as the process of defining benchmark portfolios is consolidated. Since 2012, the SP has set the limit on investment in foreign currency without exchange rate coverage only for investment in investment-grade fixed-income instruments, which account for 50% of investment in that asset class. In addition, the regulatory framework defines which derivatives qualify as foreign exchange hedging instruments. In short, the regulatory framework establishes a range of minimum and maximum exchange rate hedging requirements, according to asset class, that funds must comply with (Table IV.3)[13]/.

FIGURE IV.6 ***Foreign investment limits were gradually increased to their current levels.***
EVOLUTION OF LIMITS TO INVESTMENT OVERSEAS
(percent of fund)



Source: Central Bank of Chile based on D.L. 3500 and Law 20255.information.

TABLE IV.2 ***With the pension reform, the BCCh maintains its institutional role, but fixes a smaller number of limits for structural investments.***
SUMMARY OF INVESTMENT LIMITS SET BY THE BCCH
(percent of fund)

Investment limit		Valores vigentes Multifunds					Amendments - Law No. 21735	
		Fund A	Fund B	Fund C	Fund D	Fund E	Generational funds	FAPP
Overseas global	Legal range	30%-80%					50%-80%(1)	50%-80%(2)
	Limit	80%					To be define(3)	To be define(4)
Foreign - by fund	Legal range	45%-100%	40%-90%	30%-75%	20%-45%	15%-35%	Eliminated	
	Limit	100%	90%	75%	45%	35%		
Sovereign instruments	Legal range	30%-40%	30%-40%	35%-50%	40%-70%	50%-80%	30%-80%(1)	30%-80%(2)
	Limit	40%	40%	50%	70%	80%	To be define(3)	To be define(3)
Restricted instruments	Legal range	10%-20%					Eliminated	
	Limit	20%	17%	14%	10%	Not allowed		
Alternative assets	Legal range	10%-20%					Eliminated	
	Limit	17%	14%	11%	6%	5%		
AT1 bonds	Legal range	0%-5%					Eliminated	
	Limit	5%	5%	2%	0%	0%		
Debt certificates of financial institutions	Legal range	Between 0.5 and 1.5 times the Fund's net worth					Eliminated	
	Limit	Múltiplo = 1						

(1) With respect to the total value of Generational funds. (2) With respect to the total value of the Autonomous Pension Protection Fund. (3) The BCCh must set investment limits no later than the first day of the twelfth month following the publication of the law (March 2026).
Source: Central Bank of Chile.

For the purposes of complying with this regulation, derivatives held by pension funds are classified as currency hedges. The practical effect of this regulatory framework is that a significant portion of the foreign exchange derivatives subscribed by pension funds are used for hedging purposes, in order to partially or totally offset, with respect to the Chilean peso, fluctuations in the value of the foreign currency in which the hedged investments are denominated (Table IV.4). This use of foreign exchange derivatives differs from that of interest rate derivatives, which are essentially subscribed for investment purposes (Chapter I).

Beyond the specific role of the BCCh, the implementation of the pension reform is not free of significant challenges, such as the bidding process for members and the paradigm shift from Multifunds to generational FFGGs. Although the BCCh maintains its institutional role in the system, the SP is in a leadership position for the implementation of the reform. The most fundamental change concerns the transition from the Multifunds, created in 2002, to the new FFGG scheme. The SP must define the benchmark portfolios and the reward and penalty mechanism for evaluating the performance of the new funds, in addition to the new investment regime, for which it must have the Prior Report from the Technical Investment Council. However, given the implementation timetable defined in the law, the BCCh must first set the investment limits indicated. Another challenging area will be to reconcile the above definitions with the introduction of affiliate bidding and the inclusion of illiquid assets in investment portfolios. Considering these issues and the depth of the reform, it will be necessary for the BCCh to review its approach to defining investment limits and exercising other powers in order to properly comply with its legal mandate.

TABLE IV.3 ***The regulation establishes a range within which the level of foreign exchange coverage must be maintained.***
MINIMUM AND MAXIMUM REQUIREMENTS FOR FOREIGN EXCHANGE COVERAGE.
(percent of investment type)

Foreign exchange hedge requirement	Max	Min
Investment-grade debt (IG)	100%	50%
High yield (HY) debt	70%	0%
Variable income	50%	0%
Alternative assets	50%	0%

TABLE IV.4 ***A significant portion of the foreign exchange derivatives underwritten by pension funds are for hedging purposes.***
FOREIGN EXCHANGE DERIVATIVES OF PENSION FUNDS (*)
(MM USD)

Subyacente	Market value (April 2025)	
	Hedging	Other
Currency	1,166	1,475

(*) Derivative instruments are classified as "hedging" or "other" according to the definition of the Pension Superintendency (PS) in the notes to Table No. 1 of the Disaggregated Investment Portfolio of Pension Funds, available on its website. The PS's regulatory framework for the valuation of derivatives corresponds to section II.3 Valuation of Derivative Instrument Transactions in Book IV, Title III, Chapter II "Valuation of Domestic and Foreign Instruments, Transactions, and Contracts of Pension Funds" of the Compendium of Pension System Regulations.

Source: Central Bank of Chile based on Pension Superintendency information.

[13]/ As provided for in the Pension Fund Investment Regime, a currency hedge is defined as a position in derivative instruments that allows the PF to partially or totally offset, with respect to the local currency, changes in the value of the foreign currency in which the investments are denominated, according to the type of instrument: up to 100% of the investment in investment-grade fixed-income instruments, up to 70% of the investment in non-investment-grade debt instruments, or unrated instruments, up to 50% of the investment in equity instruments, and up to 50% of the investment in alternative assets.

BOX IV.1:

Liquidity and development of fixed-income market

This box reviews some metrics that reflect limited development of liquidity in the local fixed-income market, which various regulatory initiatives have sought to correct. Examples of efforts to enhance this market's liquidity include initiatives undertaken by the BCCh and other authorities to strengthen the repo market and promote a market-maker program, respectively. On this matter, technical assistance requested by the BCCh from the IMF in 2024 recommended promoting the development of the repo market and strengthening tools for systemic liquidity management (Box IV.1, IEF first half 2025). Still, while these initiatives can contribute, it is important to identify other structural variables that may affect this market's liquidity.

OPPORTUNITIES TO IMPROVE THE LIQUIDITY OF THE LOCAL FIXED-INCOME MARKET

The outstanding stock of local fixed-income securities outstanding as of September 2025 amounts to roughly USD 200 billion, or 62.5% of GDP. Over the last 15 years, the stock of fixed-income securitites outstanding has grown at an annualized rate of 12.5%. This is made up of 46% sovereign securities, 32% bank bonds, and 23% corporate debt. Their main holders are institutional investors, i.e., pension funds, mutual and investment funds, banks, and insurance companies.

Growth in the local fixed income market has been accompanied by significant activity in the over-the-counter (OTC) segment[1]/. The OTC segment's share of fixed-income instruments traded in the local market has been increasing since the late 2000s. Over the last 15 years, the market has become concentrated in this segment, which accounts for more than 70% of transactions. This characteristic is also observed internationally as these markets differ from those specializing in equity markets by having a higher share of OTC transactions.

The liquidity of the local secondary fixed-income market has decreased in recent years. In the case of sovereign instruments, the average annual turnover during the period 2008-2019 fluctuated around an average of 7.6 times, while between 2020 and 2024 it fell to 3.2 times, with a partial rebound most recently. In the case of corporate fixed income, after a period of turnover between 2 and 3 times during 2008-2013, a reduction was observed in 2014-2017, declining again after 2021. Meanwhile, the turnover of banking fixed income remained relatively stable at an average of 1.2 times between 2008 and 2024 (Figure IV.7).

The difference between the bid and ask prices (bid-ask spread) of Chilean sovereign bonds is comparatively high, which also signals low market liquidity. An international comparison of 33 advanced and emerging jurisdictions shows that the bid-ask spread on Chilean 10-year bonds is high compared to other economies. In particular, this indicator is higher in Chile than in other economies in the region, such as Mexico, Brazil, and Colombia (Figure IV.8).

[1]/OTC markets are decentralized, with no stock exchange order book or single physical location, in which buyers and sellers negotiate directly with each other through a network of brokers or on trading platforms.

RECENT REGULATORY INITIATIVES COULD ENHANCE MARKET LIQUIDITY

Regulatory initiatives aimed at developing the repo market could help improve liquidity in the secondary fixed-income market. As noted in previous IEFs, the local repo market is underdeveloped compared to other segments of the financial market (Chapter IV, IEF first half 2025). This could be a constraint in the efforts to deepen the fixed-income market, considering that the possibility of conducting repos on sovereign debt instruments or other high-quality instruments contributes to the demand for these instruments. The BCCh submitted for public consultation a proposed regulation for the clearing of repo transactions, which aims to provide legal certainty for the application of netting and the treatment of financial instruments as collateral. The uncertainty generated in the absence of this regulatory framework has been associated before with the lagging development of our repo market.

Updating regulations that restrict pension funds' participation in over-the-counter transactions would also contribute to the liquidity of this market, considering that they are the largest holders of fixed-income securities in the local market. Due to legal requirements and historical considerations of market transparency, pension funds can only trade on the stock exchange and are not allowed to participate in the OTC markets. Currently, trading platforms are the dominant practice in OTC markets, using request for quote (RFQ) mechanisms in which investors request buy and/or sell prices from a group of potential counterparties. This method provides a greater degree of transparency than the two-way telephone mechanisms that were more common in the past. The BCCh has the authority to extend the definition of the formal secondary market[2]/. However, this had not been feasible until now, given that there was no regulatory framework to ensure compliance with transparency and information requirements for transactions in alternative trading systems (trading platforms other than a stock exchange). Currently, transactions channeled through Alternative Trading Systems that could be established under the Fintec Law could be considered to meet the definition of a formal secondary market.

FIGUREIV.7 ***Turnover in the fixed income market has declined, particularly for sovereign securities.***
ANNUAL TURNOVER OF DEBT MARKET BY ISSUER
(times)

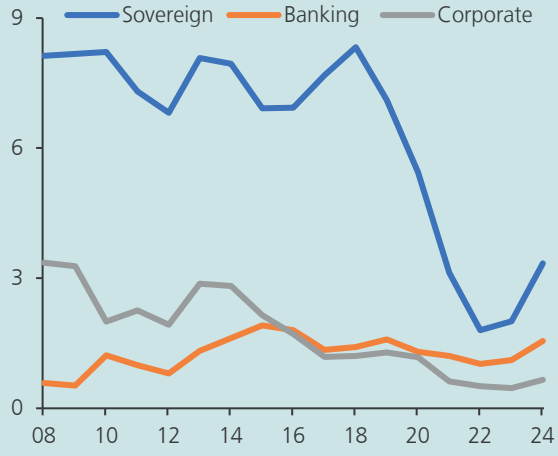
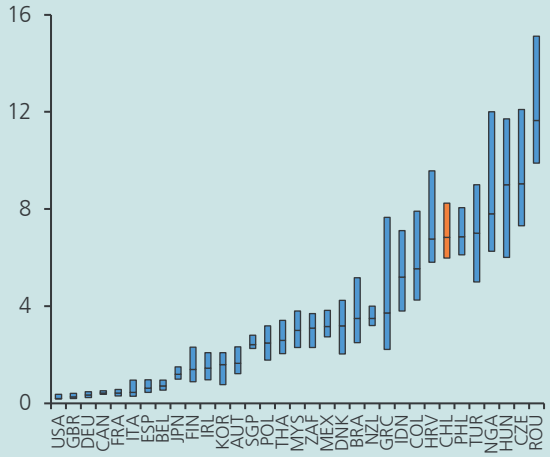


FIGURE IV.8 ***The bid-ask spread on Chilean sovereign bonds is relatively high.***
BID-ASK SPREAD OF 10-YEAR SOVEREIGN BONDS (*)
(basis points)



(*) Median and interquartile range of the daily bid-ask spread over a 10-year period (October 2015 – October 2025). Horizontal lines in each bar show medians. Orange bar represents Chile.
Source: Central Bank of Chile based on information from Bloomberg, Central Securities Depository, and LVA indexes.

[2]/ Chapter III.F.3 of the BCCh Compendium of Financial Regulations, as provided for in Article 48 of D.L. 3500. This regulation is issued by the BCCh upon prior report from the Pensions Superintendency.

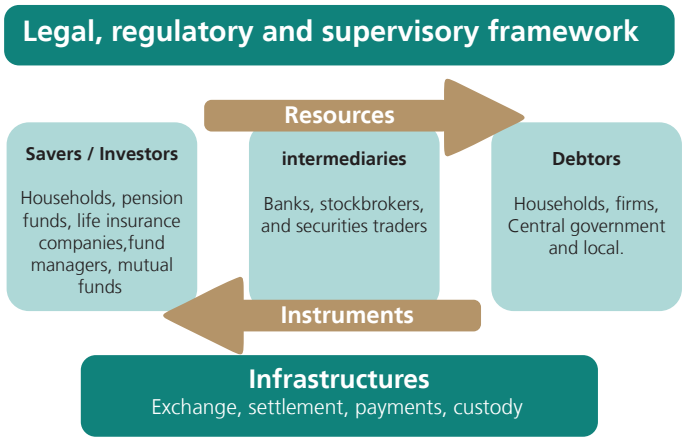
The Ministry of Finance's initiative to implement a Market Maker Program (MMP) would improve liquidity conditions for sovereign securities, with a potentially positive impact on the fixed income market in general. As noted in Chapter IV herein, the policy objective behind developing a MMP is to improve liquidity conditions in the sovereign fixed-income market, which would lead to more stable interest rates and lower financing costs. To this end, the Ministry of Finance convened a technical committee made up of technical teams from the CMF, the BCCh, and the Ministry itself. This committee began its functions last July, with the objective of laying the foundations for the concrete design of the MMP.

V. CAPITAL MARKET AND FINANCIAL STABILITY

In the past few decades, the development of the Chilean capital market has combined the strengthening of the domestic market with gradual financial liberalization, within a framework of sound macroeconomic policies—inflation targets, exchange rate flexibility, and fiscal discipline—together regulation and supervision aimed at preserving the efficiency and solvency of the financial system. This process has involved a series of initiatives to modernize the market and open it up to the word. In turn, this has enabled the capital market to play an increasing role in allocating resources, risk diversification, and the absorption of external and internal shocks. This chapter emphasizes that, while an integrated and developed capital market is an objective in itself, it also has important implications for financial stability. In particular, it identifies various channels through which a deeper and more liquid market contributes to mitigating systemic risks, absorbing external shocks, and facilitating risk management by market participants. It presents ilustrative evidence of this relationship and discusses the main challenges and prospects facing the Chilean capital market in its process of consolidation and modernization.

The capital market comprises the group of transactions and institutions that channel resources between savers and debtors and facilitate the redistribution of risk among agents through instruments such as bonds, stocks, and derivatives. This market is organized into two main segments: a primary market, where issuers—sovereign, corporate, and banking—place new instruments to be acquired by institutional, retail, resident, and non-resident investors; and a secondary market, where previously issued securities are traded among investors, providing liquidity and facilitating price formation for future issues. Its operation relies on intermediaries and infrastructures (i.e., trading platforms, clearing houses, and securities depositories) under a legal and regulatory framework aimed at promoting efficiency, transparency, access, and the reduction of systemic risks (Diagram V.1).

DIAGRAM V.1 ***The capital market involves transactions and institutions that channel resources and redistribute risks***
CONCEPTUAL CHARACTERIZATION OF THE CAPITAL MARKET



Source: Central Bank of Chile.

TABLA V.1 ***In an international comparison, Chile ranks between its regional peers and advanced economies, with adequate depth and access, albeit with relatively lower efficiency***
FINANCIAL MARKET DEVELOPMENT INDICES (FDI-IMF): CHILE VS. BENCHMARKS (1)

	Chile	Benchmarks			
		Expected median (2)	Regional peers	Advanced, small, open economies	Advanced economies
Depth	43	16	6	73	64
Access	47	31	3	73	69
Efficiency	27	24	3	45	75

(1) The depth, access, and efficiency indices are a subset of the Financial Development Index (FDI, IMF), normalized on a scale of 0-100 (100 is the most developed), considering the stock market and sovereign, banking, and corporate bond markets. The table reports values for 2021 (latest data available). For details on the groups of countries that make up the benchmarks, see the set of graphs. (2) The expected median is the value predicted by a quantile regression with fixed effects per year and a set of idiosyncratic variables.
Source: Based on Beck et al. (2008), Cihák et al. (2012), Svirydzenka (2016), Sahay et al. (2015).

CAPITAL MARKET DEVELOPMENT: METRICS AND TENDENCIES

Capital market development is a concept that encompasses different dimensions. In the literature, it is usually characterized by three: depth, access, and efficiency. Depth is associated with the relative size of the instruments issued and traded in relation to the size of the economy, and is interpreted as a greater capacity to channel savings and diversify risks; at the same time, it can reflect greater indebtedness. Access refers to the possibility for different agents to participate as issuers and investors; and efficiency refers to the ease with which financing is channeled toward the most productive uses, at competitive costs and with adequate liquidity.

From an international perspective, Chile's capital market development is at an intermediate level. The methodology used by the IMF and the World Bank (Beck et al., 2008; Cihák et al., 2012; Svirydzenka, 2016; Sahay et al., 2015) allows for international comparisons of the degree of financial development in the three dimensions mentioned above. According to the latest available information (2021), Chile consistently ranks above its regional peers and its expected median in terms of depth, access, and efficiency, but remains below small, open advanced economies and advanced economies in general, particularly in the dimension of efficiency. (Table V.1).

Over the last 15 years, the size and activity of the fixed income market have grown steadily, albeit with a temporary setback in 2020. The stock of sovereign, bank, and corporate bonds shows an upward trend accompanied by higher trading volumes in the secondary market. Following the withdrawal of pension funds, trading volumes in the fixed income market declined substantially (Chapter I, IEF second half 2023 and Figure V.1A herein). More recently, both indicators have returned to a path of normalization: the stock continues to expand, and trading volumes are recovering from their post-2020 lows, although still below previous levels. In contrast, in the stock market, depth has been reduced and stabilized at lower levels: market capitalization and trading volumes as a percentage of GDP have fallen in recent years and lately stabilized below the highs observed in the period (Figure V.1B).

Operating efficiency remains contained, with limited liquidity and turnover levels. In fixed income (Figure V.1A), secondary market turnover—the amount traded as a percent of the current bond stock—contracted sharply in 2020, and despite some recent recovery, it has not yet reached the levels of the past decade. In equities (Figure V.1B), turnover—amount traded over market capitalization—remains historically subdued at levels below 20%, while stock market turnover for the median of advanced and small open advanced economies exceeded 50% in 2021. In Chile, there have been occasional spikes in turnover on a lower capitalization basis, while trading volumes relative to GDP remain subdued, without a persistent recovery trend.

FIGURE V.1A ***Activity in the fixed income market has grown steadily, albeit with a setback in 2020.***
FIXED INCOME MARKET INDICATORS (2009-2024)(1)
(percent)

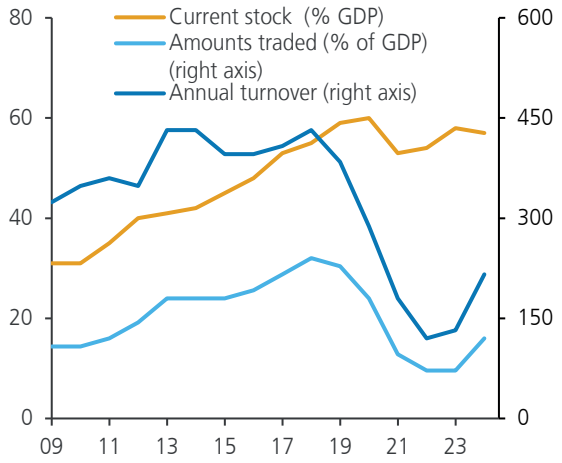
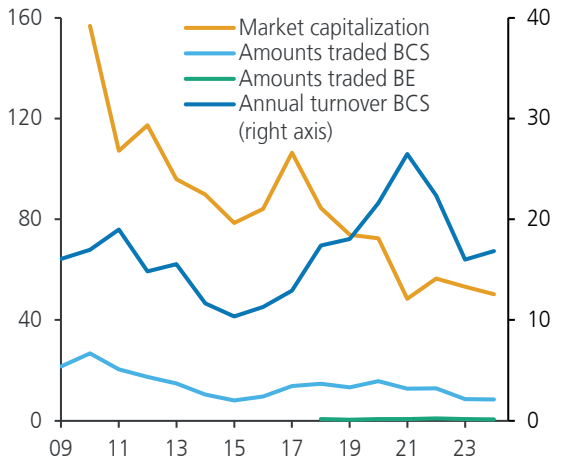


FIGURE V.1B ***Market capitalization and trading volume decline and stabilize below previous peaks***
STOCK MARKET INDICATORS (2009-2024)(2))
(percent of GDP)

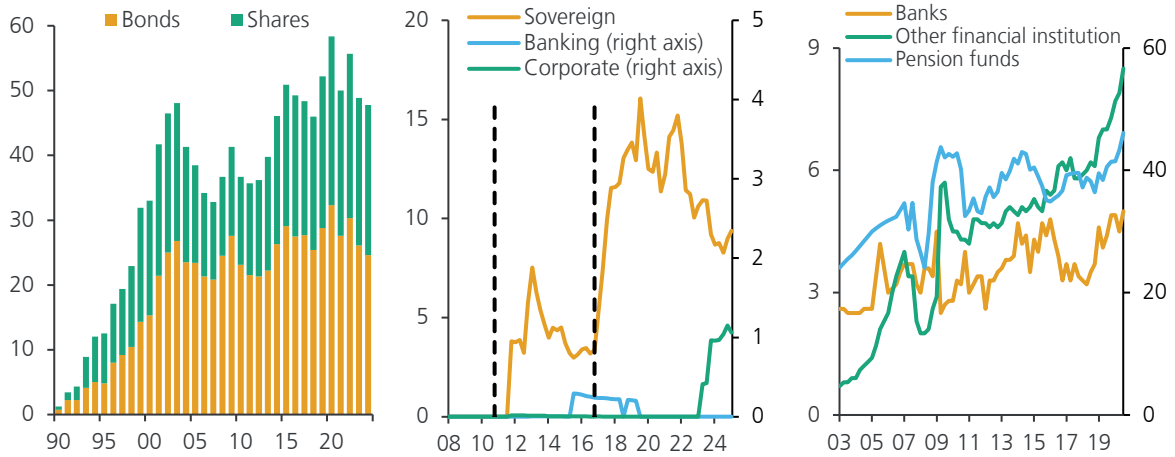


(1) Current stock refers to the nominal value of sovereign, bank, and corporate bonds, in both pesos and UF. Traded volumes refer to the sum of the market value of transactions in a given year on the Santiago Stock Exchange and the OTC market. Turnover is calculated as the ratio of traded volumes over current stock. (2) Market capitalization is the market value of shares listed on the Santiago Stock Exchange (BCS) and the Electronic Stock Exchange (BE). The amounts traded in shares correspond to the annual sum of the market value of transactions. Turnover is calculated as the quotient between the amounts traded on the BCS and market capitalization.
Source: Central Bank of Chile based on information from DCV, LVA indexes, and the World Federation of Exchanges.

FIGURE V.2 ***Net issuance of corporate bonds has been on the rise, mainly since the early 2000s.***
CUMULATIVE NET ISSUANCE OF BONDS AND STOCKS BY NON-FINANCIAL COMPANIES IN CHILE (1)
(percent of GDP)

FIGURE V.3 ***Non-residents have been increasing their participation in the local debt market.*** NON-RESIDENTS PARTICIPATION IN THE LOCAL FIXED INCOME MARKET (2)
(percent of total by instrument)

FIGURE V.4 ***Investments by local institutions abroad have also grown steadily.***
PROPORTION OF FOREIGN ASSETS IN TOTAL ASSETS BY TYPE OF INSTITUTION (3)
(percent)



(1) Corresponds to the cumulative sum of new issues, net of maturities, since 1990. (2) Dashed vertical lines mark the start of Euroclear's operations in Chile in 2011 and to tax and exchange rate changes in 2016-17. (3) Other financial entities, includes insurance companies, mutual funds, and other financial intermediaries and auxiliaries.
Source: Central Bank of Chile based on information from Meh and Schmukler (2025), LSEG-Refinitiv, and DCV.

In addition to traditional metrics, a complementary measure for assessing the contribution of the capital market to corporate financing is the cumulative net issuance of bonds and shares by non-financial firms (Meh and Schmukler, 2025). Figure V.2 shows this calculation for Chile, accumulating net issuances since 1990, which implies that this is a reference year for interpreting the figure. It should be noted that in that year the stock market was already moderately developed, in contrast to the bond market. Since then, this indicator has followed an upward trend, with a first peak around 2003 (close to 50% of GDP), further increases in 2009, and a level close to 60% in 2020. On average, during the period 2010-2024, cumulative net issuance reached 47% of GDP. In a cross-country comparison for the period 2010-2022—the latest data available, (Meh and Schmukler, 2025)—Chile ranks above the average for middle-income economies (17%) and slightly above that for advanced economies (43%), confirming a period of significant deepening of the capital market.

Among other indicators that measure more general financial development, the depth of institutions is considered. In Chile, pension funds, mutual funds, and insurance companies continue to be a distinctive feature of the Chilean system compared to the rest of the region, even after pension withdrawals. Pension funds remain the main investors in the long-term bond market, even though their assets under management fell from around 80% of GDP to 60% after the withdrawals. Insurance companies maintain portfolios with longer average durations, but their relative share in these markets is limited (Opazo et al., 2015). Mutual funds, meanwhile, have remained at around 20% of GDP in recent years, with a more concentrated presence in short-term instruments.

In terms of financial integration, the Chilean capital market has shown a sustained trend toward greater openness since the early 2000s. In practical terms, the actual position of foreign assets and liabilities shows increasing integration. The share of nonresident investors in local sovereign debt rose to levels close to 20% before the pandemic, although their share in local corporate and bank debt remains limited (Figure V.3). On the side of foreign assets, pension funds and insurance companies hold a growing proportion of foreign assets (Figure V.4), which allows them to access more diversified portfolios, thus reducing exposure to idiosyncratic risk and potentially higher risk-adjusted returns (Didier et al., 2013). Actually, Chile's financial opening is bidirectional: foreign savings co-finance local investment, while part of domestic savings is invested abroad. This integration has also contributed to the dynamism of the foreign exchange hedging market (Box V.I).

POLICY DEVELOPMENTS FOR STRENGTHENING THE CAPITAL MARKET

The current status of Chile's capital market development has been guided by a continuous process of initiatives, stretching from the early 1980s to the present day. Its progress has been structured around two complementary axes: strengthening the domestic market and progressive financial integration with the rest of the world.

Strengthening the domestic market requires, first and foremost, a set of preconditions that include macroeconomic stability, a high-quality legal and institutional framework, and a robust and efficient regulatory framework. The first of these conditions allows for the existence of long-term projects and contracts (Levine, 2005)—which in Chile is supported by the autonomy of the Central Bank, the inflation targeting regime, responsible fiscal policy, and a floating exchange rate. The soundness and stability of the legal framework protect the rights of creditors and shareholders (La Porta et al., 1997, 1998, 2013). Finally, a good regulatory framework ensures the stability and solvency of the financial system, favoring the development of banks and institutional investors (e.g., pension funds, insurance companies, and asset management companies) with long investment horizons, which provide stable demand for assets (CGFS, 2007; Cihák et al., 2012; De la Torre et al., 2007; Berstein and Marcel, 2019).

Financial integration, which is part of a broader trend toward economic and institutional openness in the country, has advanced in line with local development. Financial integration can help expand sources of financing and the investor base, while deepening the local market by improving efficiency and governance standards (Bekaert et al. 2005; Klein and Olivei 2008). However, greater financial integration also entails exposure to external risks—capital flow volatility, contagion, mismatches, among others—that are more prevalent in economies with weak institutional and supervisory frameworks and underdeveloped domestic financial markets. Thus, the benefits of financial integration may not be observed in countries with low domestic financial development (Edwards 2001; Klein and Olivei, 2008; Eichengreen, 2019). In this regard, Chile has sought to strengthen its institutions and deepen and modernize its financial market to mitigate these vulnerabilities and boost its shock-absorbing capacity.

Since the 1980s, the legal and regulatory framework has evolved consistently along the aforementioned lines, with certain fundamental reforms standing out: Decree Laws 3,500 and 3,501 of 1980, which introduced the individually funded pension system; the Securities Market Law of 1981, which established a legal framework for the issuance and brokerage of securities; the Corporations Law of the same year, which established corporate governance regulations and shareholder rights; and the General Banking Law of 1986, which modernized banking regulation after the financial crisis of 1981-1982 (Cifuentes et al., 2002; Walker and Lefort, 2002; De Gregorio et al., 2000; Berstein and Marcel, 2019).

Several subsequent initiatives further developed different aspects of the domestic market: the creation of the Central Securities Depository (DCV) in 1993, which modernized the custody and settlement of instruments, reducing operational risks; the OPA Law (initial public offering) in 2000, which strengthened corporate governance and the protection of minority shareholders; and the Capital Markets I, II, III, and Bicentennial reforms (2001, 2007, and 2010), which made institutional investment regimes more flexible, promoted multi-funds, expanded the range of instruments on offer, eliminated restrictions on foreign investment, and strengthened financial consumer protection, favoring a more liquid and competitive market. More recently, in 2019, Law 21,130 unified financial supervision under the Financial Market Commission (CMF), raised bank capital requirements, and incorporated prudential tools; in 2023, the Fintech Law and the Resilience Law modernized the regulation of digital services and critical payment infrastructure; and in 2025, a pension reform was agreed upon that strengthens individual capitalization and domestic savings.

At the same time, Chile advanced in financial integration through reforms that expanded international investment by pension funds and eliminated restrictions on external flows. Law 19,301 (1994) allowed AFPs to invest in international assets, while non-remunerated reserves on external loans were reduced to 0% in 1998 and eliminated in 2001 (De Gregorio et al., 2000; Le Fort and Lehmann, 2004). Subsequently, Law 20,255 (2008) raised foreign investment limits for pension funds and established a regulatory framework for foreign exchange derivatives, strengthening risk management. A later important milestone was the start of operations in Chile by Euroclear Bank in 2011 and subsequent changes in tax legislation and foreign exchange regulations between 2016 and 2017, which facilitated the issuance of "Euroclearable" bonds and the operation of international custodians in the country, which in turn led to a substantial increase in the holding of these instruments by non-residents (Figure V.3; Chapter IV, IEF first half 2017). More recently, the SII and the CMF removed the last regulatory friction so that non-residents can perform local financial transactions in Chilean pesos. Under the Resilience Law, legal changes were introduced to allow foreign financial institutions to access simplified tax identification numbers and replace the promissory note required for subscribing to agreed overdrafts on current accounts (Chapter IV, IEF first half 2025).

RELEVANCE OF CAPITAL MARKET DEVELOPMENT FOR FINANCIAL STABILITY

A developed and integrated capital market, supported by an adequate institutional and regulatory framework, can contribute to mitigating the effects of domestic and external shocks on the financial system, as well as to the task of managing these risks by different economic agents. This can occur through various channels: (i) deeper and more liquid markets facilitate efficient price formation and the generation of information consistent with asset risk; (ii) diversification of financing sources—between banks and markets, and between local and external sources—reduces the risk of project renewal or postponement; (iii) a broader investor base increases the capacity to absorb both internal and external shocks; (iv) greater integration, in the form of domestic savings invested abroad, allows certain agents, such as institutional investors, to repatriate resources in times of stress; (v) greater depth and liquidity reduce liquidity premiums and refinancing risk; (vi) finally, the development of a hedging market stabilizes cash flows and allows for more efficient management and diversification of idiosyncratic risk.

Channels (ii), (iii), and (iv) are discussed in more detail below, with three illustrative exercises, while channel (vi) is discussed in Box V.1.

First, a developed and integrated capital market expands the financing options available and reduces dependence on any particular source. This helps cushion shocks affecting a specific segment and source of resources (Adrian et al., 2013; Crouzet, 2018). The related literature notes that financial systems based exclusively on banks or markets face limitations: while banks facilitate long-term relationships and stability in uncertain contexts, markets allow for risk diversification and access to longer-term or lower-cost financing (Demirgüç-Kunt and Levine, 2001; Allen and Gale, 2001; Levine, 2002). Consequently, mixed systems, where both channels coexist, would exhibit greater capacity to adjust to shocks (Bats and Houben, 2020; Aldasoro et al., 2023). Chile is precisely such a system. The corporate financing structure combines bank credit, local bond issues, and international debt, although the proportions vary depending on the type of firm, and not all firms can access all types of financing (Figure V.5).

In comparative terms, Chile ranks among the economies with mean participation in the proportion of market financing in total credit. This share has increased slightly since 2015 and is expected to hover around 28% in 2025 (20% excluding the mining sector), below that of countries such as the United States but above several European countries (Figure V.6). This reflects the ability of firms—at least the larger ones—to combine bank and market financing in their financing structure.

An additional margin for diversification of financing sources is its origin. In recent years, at the aggregate level, there has been a higher proportion of external financing in non-financial companies, along with a stabilization of domestic credit (Okuda, 2025). In particular, following pension fund withdrawals in 2020–2021, the proportion of external bond issuance rebounded significantly in 2021, reaching nearly 90% of total issuance, compared with a share of just under 50% the year before (Figure V.7). This dynamic is consistent with the idea of substitution of financing sources, although it would mainly favor large, well-rated companies that have access to these markets, while for smaller firms, banks remain the dominant source of financing.

A second channel through which capital market development contributes to financial stability is the ability to reduce the sensitivity of local financial prices to global shocks. A deeper and more liquid market can better absorb external shocks. A broad investor base, greater diversity of instruments, and the availability of hedges allow prices to better reflect information and adjust without persistent dislocations. The literature shows that countries with more developed markets exhibit lower sensitivity to external conditions and recover more quickly after episodes of stress (Agosín and Díaz, 2019; Park and Shin, 2025).

FIGURE V.5 ***Non-banking companies use different sources of financing.***
TOTAL DEBT OF NON-BANKING COMPANIES BY TYPE OF DEBT AND TYPE OF COMPANY (1)
(percent of GDP)

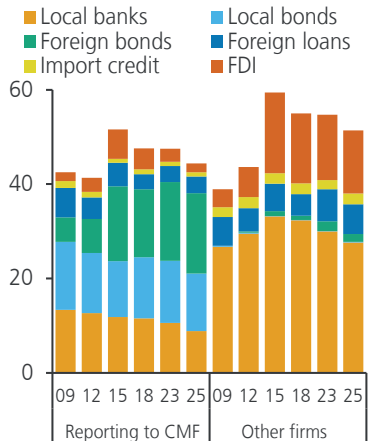


FIGURE V.6 ***Corporate financing through the market is significant.***
PROPORTION OF DEBT INSTRUMENTS IN NON-FINANCIAL CORPORATE SECTOR FINANCING (2)
(percent)

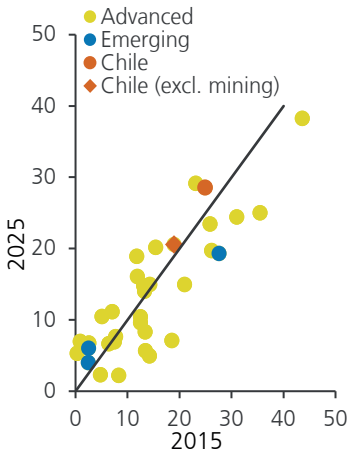
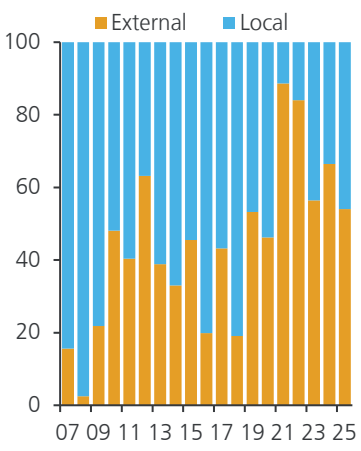


FIGURE V.7 ***The share of corporate bond issues in the external market increased in 2021.***
CORPORATE BOND ISSUES: LOCAL VS. EXTERNAL COMPOSITION (3)
(percent of annual total)



(1) Based on company-level information with the exception of non-bank factoring, leasing and others, securitized bonds, and commercial paper. Does not include university commercial debt. (2) Total corporate financing includes credit and debt instruments in all currencies to the non-financial corporate sector. Comparison to the first quarter of 2015 and 2025. Data at the end of 2024 is used for nine countries that do not report data for 2025 at the time of this report. (3) Covers bonds issued by non-financial corporations; excludes securitized bonds and commercial papers.
Source: Central Bank of Chile based on information from CMF, BIS, OECD, BCS, DCV, and RiskAmerica.

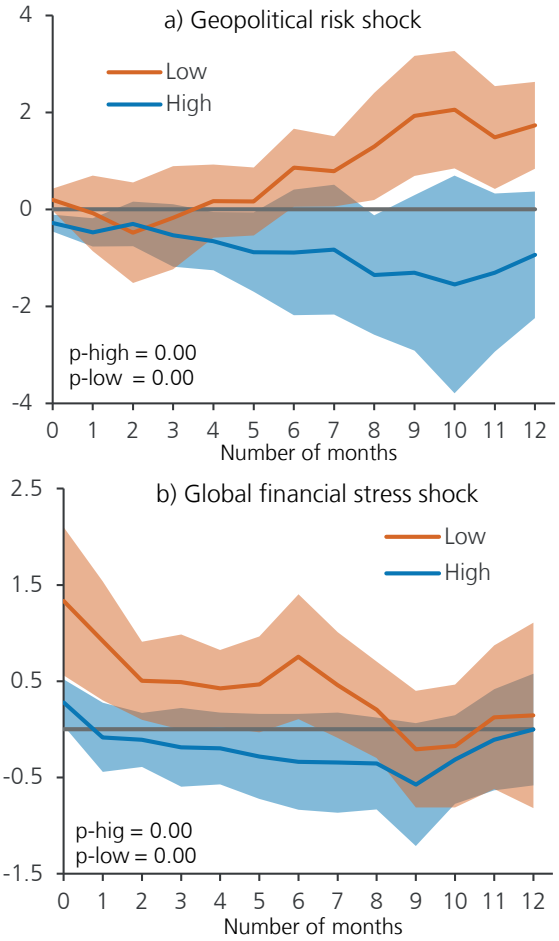
For example, the depth of the capital market mitigates the reaction of sovereign rates to global shocks. For a monthly panel of emerging and advanced economies, Figure V.8 shows the response of 10-year sovereign bond yields to severe increases in the Global Financial Stress Index calculated by the Office of Financial Research of the US Department of the Treasury (OIF, 2025) and the Geopolitical Risk Index calculated by Caldara and Iacoviello (2022). The results show that this impact is smaller in countries with high market depth (defined as those above the 75th percentile in the depth index included in Table V.1) than in those with low depth (below the 25th percentile of the same indicator). This pattern is consistent for both types of global shocks and confirms the mitigating role of depth. This result is robust under different specifications and can also be observed in other financial prices[1]/.

Locally, the correlation between domestic prices and external shocks increased following the decline in capital market depth after the pension fund withdrawals—however, it is worth noting that the window considered, 2021–2025, may also include other changes such as greater integration and exposure of the economy. Estimates based on local projections with daily data compare the dynamics of the nominal exchange rate and the local sovereign financial stress index, calculated by the BCCh, in the face of a severe shock to the global financial stress index (OIF, 2025), showing that reactions are more intense and persistent in the period referred to as low market depth (Figure V.9)[2]/. This result is consistent with lower asset holdings by institutional investors and a reduction in trading volumes in the fixed income market after the materialization of pension withdrawals

[1]/ The estimations control for alternative measures of financial integration. The results are consistent across alternative measures of development, including the participation of institutional investors in corporate financing.

[2]/ Similar results are obtained for onshore spreads at different maturities, the corporate bond spread, and alternative measures of local financial stress. For details, see technical note Carvajal et al. (2025).

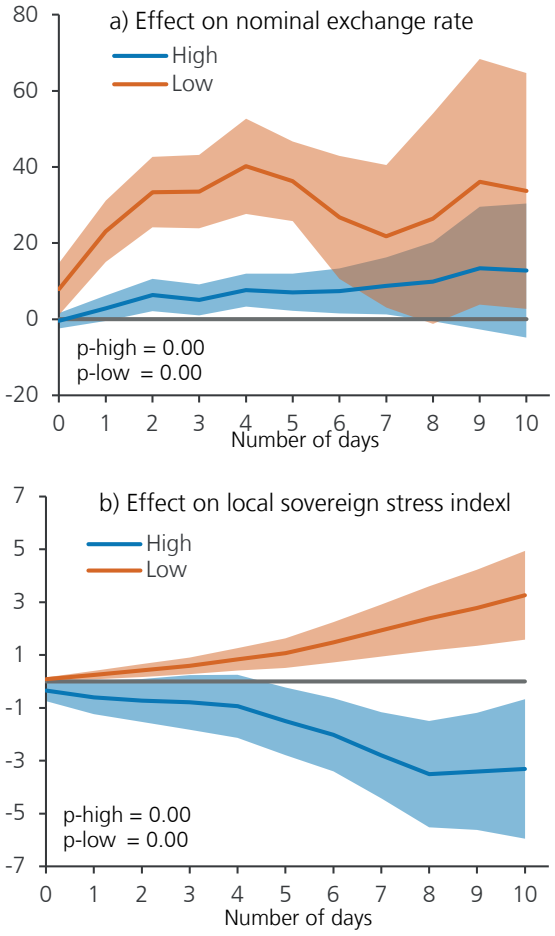
FIGURE V.8 ***Countries with more developed capital markets show less sensitivity in sovereign rates to external shocks.***
RESPONSE OF SOVEREIGN RATES TO EXTERNAL SHOCKS BY MARKET DEPTH (*)
(porcentaje acumulado según número de meses)



(*) Assesses impact of a one-standard deviation shock relative to the mean of the Geopolitical Risk Index (Caldara and Iacoviello, 2022) (panel a) and Global Financial Stress Index (OIF, 2025) (panel b) on 10-year sovereign rates. The figure compares the dynamics for economies with high market depth (above the 75th percentile) and low market depth (below the 25th percentile) of the market depth index (Svirydzenka, 2016) for a sample of 54 emerging and advanced economies in the period between January 2020 and September 2024. The p-values report the joint significance of each impulse response function. The bands show 90% confidence intervals.

Sources: Central Bank of Chile based on Carvajal, Jara, and Mendoza-Yuseff (2025, technical note).

FIGURE V.9 ***Local financial variables have recently been more sensitive to external shocks.***
RESPONSE OF LOCAL VARIABLES TO GLOBAL FINANCIAL STRESS SHOCKS (*)
(cumulative response by number of days; pesos per dollar and percentage)



(*) Assesses the impact of a shock of one standard deviation from the mean of the Global Financial Stress Index (OIF, 2025) on the nominal peso-dollar exchange rate (panel a) and the local sovereign stress index reported by the BCCh (panel b). The p-values represent the joint significance and the bands represent the 90% confidence intervals. Estimates include daily information from 2000 to September 2025. The graph compares the differentiated response during periods of high (2011-2019) and low (2021-2025) capital market depth.

Source: Central Bank of Chile based on Carvajal, Jara, and Mendoza-Yuseff (2025, technical note).

A third channel through which local development can contribute to financial stability is capital repatriation when external financing becomes scarce, such as during global risk-off episodes. The existence of local investors with significant positions in external assets—for example, pension funds or other institutional investors—allows them, in times of stress, to liquidate part of those investments and reinvest them in the domestic market, acting as a buffer against foreign capital outflows[3]/. There are several reasons that may explain this dynamic: first, local investors are better informed about the expected return and relative risk of domestic assets, an informational advantage that is accentuated in periods of high international uncertainty (Brennan and Cao, 1997; Tille and van Wincoop, 2008; Van Nieuwerbergh and Veldkamp, 2009; Broner et al., 2013); second, due to risk aversion shocks where agents perceive foreign assets to be riskier or illiquid, or when exchange rate volatility improves the relative value of domestic assets (Milesi-Ferreti and Tille, 2011; Broner et al., 2013); third, if the materialization of a risk, such as sovereign risk, affects residents differently than foreigners (Broner et al., 2010); fourth, if a regulatory limit could be triggered by abrupt changes in portfolio valuations that require rebalancing toward domestic assets (Chapter III, IEF first half 2010).

The dynamics of asset repatriation—and therefore more stable net flows—are more frequent in economies with more developed capital markets (Figure V.10), where there are investors with the capacity to adjust their external portfolios to global shocks (Forbes and Warnock, 2012; Jara and Cifuentes, 2014; Agosín et al., 2019; Lepers and Mercado, 2021; Agosín and Díaz, 2023). In these cases, the scale of domestic savings invested abroad relative to foreign liabilities determines the potential for financing compensation (Jara and Cifuentes, 2014; Agosin et al., 2019; Agosin and Díaz, 2023). Due to their size, these savings are usually managed by institutional investors that pool resources from households and firms (Abreu et al., 2011; Agosin and Díaz, 2023), and in the case of Chile, they correspond mainly to pension funds (Figure V.11).

The mechanism described operates in two related ways. First, capital repatriation reduces the probability of net outflows. Second, in the event of a capital sudden stop, the effects on the local financial market tend to be less severe, given that a larger domestic financial market allows for smoother macroeconomic adjustment and substitution of financing sources (Montañez-Enríquez et al., 2024; Agosín and Díaz, 2023; Avdjiev et al., 2025). This greater stability in net flows can also have a positive effect on the stability of bank funding (Chapter III, IEF second half 2008; Podpiera, 2012) and, through this channel, on bank credit. Figure V.12 shows that the contraction of domestic bank credit to the non-financial private sector, in the face of a sudden stop in net flows, is less pronounced in economies with highly developed domestic financial markets in terms of market depth and the size of institutional investors' assets.

Thus, the development of the capital market and its integration with the rest of the world can have implications for financial stability in different ways. On the one hand, greater integration can expand the sources of financing and the investor base available. On the other hand, a more developed market has a greater capacity to absorb shocks without enduring large or persistent price dislocations. In turn, a developed domestic market can help to better manage the risks of greater openness, for example by mitigating the transmission of sudden capital reversals. However, the exercises outlined above are only examples of a broader and more complex connection between development, openness, and financial stability.

[3]/ This, notwithstanding the fact that, at the same time, countercyclical fiscal policy may also be repatriating foreign savings, to the extent that these are available, for example, through withdrawals from sovereign funds.

FIGURE V.10 ***The volatility of net capital flows is lower in advanced economies***
VOLATILITY OF NET CAPITAL FLOWS AND LEVEL OF DEVELOPMENT CAPITAL MARKET BY TYPE OF COUNTRY (1)
(percent)

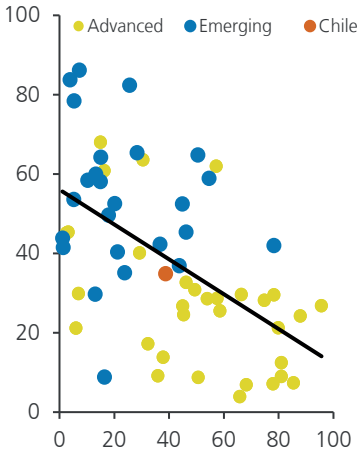


FIGURE V.11 ***Chile stands out in terms of foreign asset holdings in comparative terms***
SIZE AND PROPORTION OF FOREIGN ASSET HOLDINGS OF PENSION FUNDS BY COUNTRY GROUP (2)
(percent)

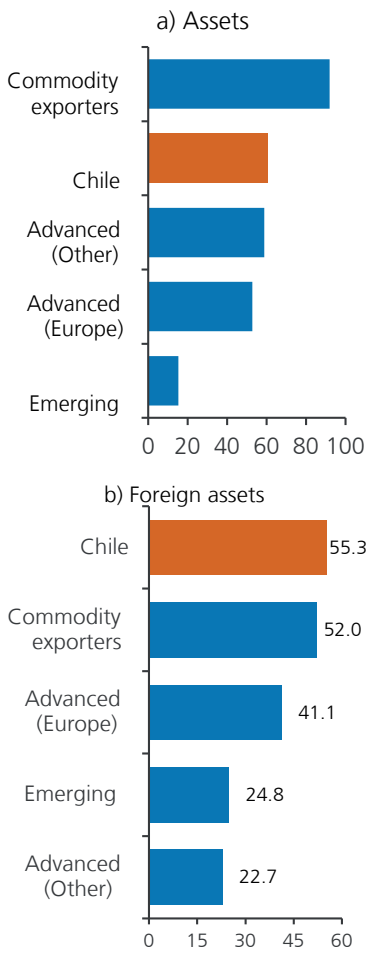
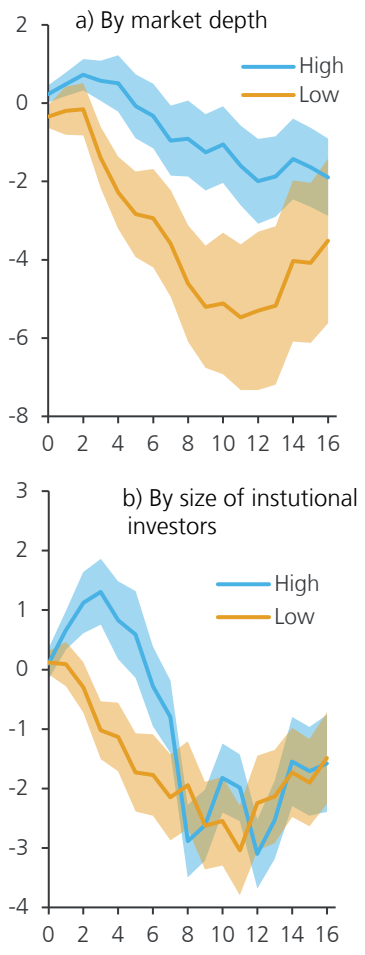


FIGURE V.12 ***Credit contraction in the event of a capital sudden stop is lower in developed markets.***
DYNAMICS OF DOMESTIC BANK CREDIT IN EPISODES OF SUDDEN NET CAPITAL OUTFLOWS, BY LEVEL OF CAPITAL MARKET DEVELOPMENT (3)
(cumulative percent change)



(1) Capital flow volatility is the ratio between the standard deviation of net flows and the sum of gross inflows and outflows, expressed as a percentage. The level of financial market development is measured using the depth index used in Table V.1. (2) Total pension fund assets (% of GDP) and investments in non-resident issuers (% of total assets under management). Chile is shown individually; groups report their median. Coverage refers to the latest available data (mainly 2021). (3) Panel (a): capital market depth according to Svirydzenka (2016), and Panel (b): size of institutional investors measured as assets under management (% GDP); high (low) level is values above (below) p75. Areas correspond to a 95% CI. Sudden stop is a binary variable indicating events of a decline in net capital flows of more than two standard deviations from the average of the last five years. Horizontal axis in quarters.

Source: Central Bank of Chile, based on IMF and OECD information.

OUTLOOK AND CHALLENGES

The development of the Chilean capital market has been driven by a stable macroeconomic environment and a series of reforms aimed at both domestic strengthening and greater external openness. These initiatives have promoted institutional deepening, improvements in the regulatory framework, diversification of participants and instruments, development of market infrastructure, and advances in the modernization of financial supervision.

The BCCh does not have an explicit mandate to develop the capital market. However, its policies have contributed significantly to strengthening it. The conduct of monetary policy has contributed to a stable and predictable environment, an essential condition for encouraging long-term investment decisions. Its role in prudential regulation and the development of critical infrastructure—such as payment and settlement systems—has enhanced investor confidence and facilitated market modernization. Finally, within the scope of its financial stability mandate, the BCCh contributes to the monitoring and assessment of systemic risks in its Financial Stability Report (IEF), allowing it to alert agents to the emergence of vulnerabilities, as well as to deploy policies to ensure the liquidity and functioning of the financial market in times of financial stress. This capacity contributes to the confidence of capital market participants and, ultimately, to its development.

Nonetheless, the Chilean capital market still faces some significant challenges, especially in terms of liquidity. The secondary fixed income market and the stock market have relatively low turnover compared to other countries, which can translate into higher transaction costs and greater price sensitivity in periods of stress.

Currently, multiple initiatives are being developed that seek to address these limitations and thus strengthen the capital market. In terms of liquidity, the development of the repo market and the Market Formers Program (PFM) stand out. The first seeks to expand short-term liquidity management mechanisms by using debt instruments as collateral, which would help reduce credit risk and boost the secondary debt market. In this context, the initiative proposes aligning the clearing of repo transactions with international standards, thereby facilitating their development. For its part, the PFM, led by the Ministry of Finance, seeks to strengthen the secondary market for sovereign fixed income, increasing its liquidity through the participation of intermediaries committed to the constant provision of prices and volumes. Meanwhile, the removal of restrictions on the use of the Chilean peso in cross-border transactions seeks to deepen and provide greater liquidity to the foreign exchange and derivatives market in local currency, facilitating the involvement of international investors.

At the same time, the CMF and other system players are also working on or evaluating initiatives that could complement the above measures. In particular, to improve access to market financing for smaller firms, mechanisms such as crowdfunding, alternative sources of financing, opening up funds to small and mid-cap companies, and creating investment vehicles focused on sectors underrepresented in the capital market are being considered. Other proposals aimed at promoting competition and inclusion include the international integration of stock exchanges in Latin America, the promotion of the development of the securitization market, and the implementation of the Fintech Law. Finally, during 2025, the CMF initiated workshops with the industry aimed at identifying measures that contribute to the strengthening of the capital market.

The recently approved Pension Reform could lead to a deepening of the Chilean capital market. This reform implements higher contributions to individual capitalization accounts, which will gradually be increased over nine years until reaching 4.5 percentage points of taxable income. However, the reform also includes significant changes to the functioning of the pension system that must be implemented considering their implications for the functioning of the capital market. These changes include the definition of the benchmark portfolios for the new generational funds, the new investment regime, the applicable limits, and the bidding processes every two years. The law provides for a gradual implementation of these changes which, together with an appropriate governance framework, will avoid abrupt portfolio adjustments that could affect the functioning of the local capital market.

BOX V.1:

Derivatives market development in Chile

The derivatives market is a fundamental segment of the capital market. It consists of instruments whose prices depend on the value of other assets and other underlying variables, such as shares, commodities, interest rates, or exchange rates. These instruments allow agents to hedge exposures and redistribute risks. Thus, a well-developed derivatives market contributes to the completeness of financial markets, particularly by facilitating risk management, which in turn contributes to the functioning of the capital market. Conversely, the existence of deep and liquid capital markets provides underlying assets, price benchmarks, and the necessary institutional infrastructure—exchanges, clearinghouses, and intermediaries—for the development of the derivatives market.

Although the derivatives market plays a central role in financial risk management and, hence, can reduce the volatility of the system, it can also sometimes be a source of vulnerabilities. The risks inherent in these instruments—such as counterparty risk, price risk, or position concentration risk—can be amplified at the systemic level if they affect multiple participants simultaneously, especially when they have similar investment profiles. Moreover, these markets have characteristics whereby derivatives, in addition to being used for hedging, allow leveraged positions to be taken at a fraction of the price of the underlying asset. In times of financial stress, margin calls can increase sharply, creating liquidity risks. Furthermore, in some jurisdictions, clearing and settlement mechanisms are less standardized, which increases operational risk and problems of information asymmetries (Dodd and Griffith-Jones, 2007). In Chile, several of these risks have been addressed through various initiatives and modernization efforts, which will be detailed below.

In Chile, interest rate and exchange rate derivatives markets have evolved over the last 25 years, with trajectories determined by regulatory factors and the different hedging needs of economic agents (Figure V.13). The development of the foreign exchange (FX) derivatives market—particularly forwards and swaps—began in 2001, driven by the adoption of the floating exchange rate regime and the opening of the capital account, accelerating with the 2008 pension reform and the introduction of master agreements, derivatives netting, and the recognition of Central Counterparty Clearing Houses under Law 20,345. There is ample empirical evidence showing that the use of derivatives in Chile has strengthened the financial risk management of banks, institutional investors, and firms in the real sector (Cowan et al., 2005; Cowan and Hansen, 2008; Fernández, 2006; Albagli et al., 2021; Alfaro et al., 2021, among others). Interest rate derivatives, especially overnight index swaps (OIS), began to expand more strongly in 2010, accelerating their growth from 2018 onwards (Delpiano and Villena, 2020).

Currently, the bulk of transactions in the domestic derivatives market are mainly concentrated in instruments linked to the exchange rate and local interest rates, followed by instruments on inflation, foreign rates, and commodities. Transactions are mostly executed in the OTC market, where different agents exchange assets bilaterally.

According to September 2024 data (Benavides, Bustamante, and Villena, 2024), non-residents have a dominant share in these markets (measured as outstanding balances), reaching 80% in interest rate derivatives (OIS-CLP), 50% in foreign exchange derivatives, and around 50% in inflation instruments. Among resident agents, banks stand out with 12% of interest rate derivatives, 26% of exchange rate derivatives, and 32% of inflation derivatives, followed by pension funds with 9%, 12%, and 13%, respectively. In the currency derivatives market, non-financial firms also stand out, representing 6.7% of the market, although their presence in the interest rate derivatives markets is low. Finally, insurance companies, stockbrokers, and general fund managers (AGF) have a limited share, not exceeding 3% in any of the markets analyzed.

The BIS Triennial Central Bank Survey on Foreign Exchange and OTC Derivatives Markets 2025 reveals that in Chile, FX and interest rate derivatives account for 52% and 48% of derivatives market transactions, respectively. The most widely used instruments in each category are foreign exchange forwards and swaps for currencies, and interest rate swaps.

Globally, the same survey shows significant growth in the FX and interest rate derivatives markets. In April 2025, the daily trading volume in FX derivatives reached US$9.6 trillion, an increase of 28% compared to 2022, with the US dollar dominating 89.2% of transactions. Meanwhile, the interest rate derivatives market reached US$7.9 trillion per day, representing a 59% increase compared to 2022. In this case, the euro led with 38% of the total, crowding out the US dollar, which reduced its share to 31%.

FIGURE V.13 ***Since their inception, derivatives markets have undergone considerable expansion.***
DERIVATIVES MARKET ACTIVITY IN CHILE
(daily average transactions in millions of US dollars)

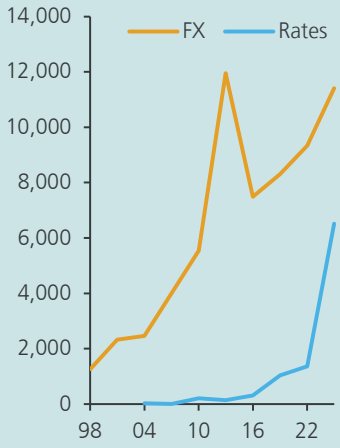


FIGURE V.14 ***The local interest rate derivatives market is expanding significantly in 2022-25...***
INTEREST RATE DERIVATIVES MARKET ACTIVITY
(annualized daily volume traded as multiple of GDP; daily volume traded, trillions of US dollars)

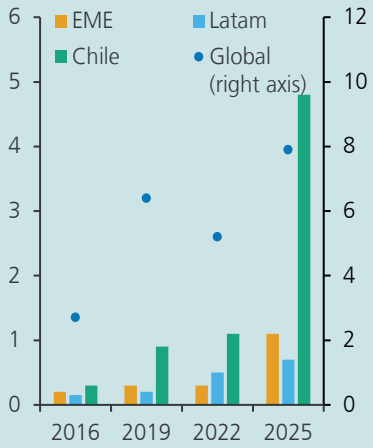
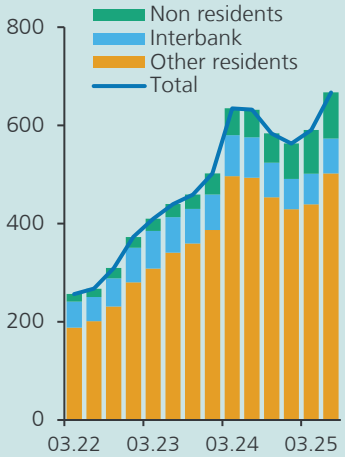


FIGURE V.15 ***...in which non-residents have been important players***
POSICIONES BRUTAS DEL SECTOR BANCARIO EN SWAPS PROMEDIO CÁMARA CLP, POR SECTOR DE CONTRAPARTE
(trillions of Chilean pesos)



Source: Central Bank of Chile based on BIS, 2025. Triennial Central Bank survey of foreign exchange and OTC derivatives markets, and SIID. For details, see the set of figures.

Between 2022 and 2025, the Chilean OTC derivatives market grew strongly, especially in interest rate instruments—whose transaction volume came close to 4.8 times GDP—well above global growth (Figure V.14). This increase is due to cyclical and structural factors. Among the former, the most notable are the fall in short-term rates from historically high levels, in a context of scattered expectations about the speed of inflation convergence, and the trajectory of long-term rates, conditioned by growth prospects and geopolitical risks affecting the fiscal sustainability of several economies. More often than not, the agents driving this growth are nonresidents (Figure V.15), whose participation was favored by the incorporation of Chilean peso-denominated interest rate swaps into international infrastructures such as the Chicago Mercantile Exchange in 2016 and the London Clearing House in 2019. In the case of currency derivatives, the increase observed occurred amid greater volatility in the US dollar and, more recently, due to shocks in global trade policy.

There are also structural factors that have contributed to the dynamism of the derivatives market in Chile. Among them, the strengthening of financial infrastructures, such as central counterparties, clearing houses, and trade repositories, stands out. In the latter area, the Integrated Derivatives Transaction Information System (SIID-TR) provides a publicly accessible digital register with near real-time access to daily data on participants, trading volumes, prices, current positions, and contract terms. The incorporation of these infrastructures, in line with international best practices, contributes to improving market transparency, reducing systemic risk, and preventing abusive behavior in the area of OTC derivatives (FSB, 2017).

FINANCIAL STABILITY REPORT / **Second half 2025**