FINANCIAL STABILITY REPORT

FIRST HALF 2026

CÓNDOR
Andes mountains

Andean Condor (*Vultur gryphus*)

The condor is one of the biggest flying birds in the world, whose wingspan can exceed 3.2 meters and can weigh up to 15 kilograms.

In Chile, the condor inhabits the Andes mountain range from Arica to Tierra del Fuego, serving as a symbol of national identity that appears on the national coat of arms alongside the huemul. Its presence in the mountain skies is an indicator of the health of mountain ecosystems.

As a scavenger, the condor plays a fundamental ecological role by removing animal carcasses from the scenery, preventing the spread of disease, and recycling nutrients.

Its reproductive biology is notably slow: pairs, which mate for life, produce a single egg every two or three years, and the chicks require more than a year of parental care before gaining independence. This slow reproductive rate makes the species particularly vulnerable to human-induced threats.

Financial Stability Report

FIRST HALF 2026

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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CONTENTS*/

BOXES

*/ The statistical cutoff date of this Financial Stability Report was 5 May. The financial data considers the moving average of the last ten days. This document was originally written in Spanish. In case of discrepancy or difference in interpretation, the Spanish version prevails.

SUMMARY

The main risk to local financial stability comes from an abrupt tightening of financing conditions, which could be a consequence of an intensification of the conflict in the Middle East or its effects on inflation and global growth. International financial conditions deteriorated during March but have returned to levels that are consistent with a benign view of the economy, contrasting with the risks associated with the conflict and other sources of uncertainty. Global vulnerabilities, associated with high fiscal indebtedness, stretched valuations of risky assets, and greater interconnection between banks and other financial agents remain high, which can exacerbate and spread the consequences of various risk events. Local financial markets have shown movements in line with global trends, although recent changes in the participation of non-residents and in the portfolios of local institutional investors could increase the transmission of external volatility events to our economy. The financial situation of households and firms does not show significant changes, while stress test results suggest that the materialization of a severe shock would have limited impact on their debt repayment capacity. Meanwhile, the levels of profitability, capital and liquidity of the banks would allow them to remain solvent in a scenario of severe stress. The Chilean economy has macroeconomic soundness and robust financial regulation and supervision standards, which allow it to have adjustment mechanisms and buffers to mitigate the effects of severe shocks.

DEVELOPMENTS IN FINANCIAL MARKETS AND EXTERNAL VULNERABILITIES

Global financial markets have fluctuated sharply since the outbreak of the conflict in the Middle East, although markets continue to reflect a relatively benign assessment of their evolution and consequences. During March, risk appetite declined significantly, volatility —as measured by the VIX and MOVE indices— increased, the dollar appreciated globally, benchmark interest rates rose, equity markets fell, and capital flowed out of emerging economies. Subsequent expectations of a potential agreement reversed much of these movements, although the volatility associated with the conflict remains present. By the close of this Report, equity prices, corporate bond spreads, and risk premiums in emerging markets remained at historically favorable levels, while medium- and long-term benchmark interest rates continued to be elevated. This benign market view is consistent with the limited revisions to global growth seen so far, but contrasts with the high uncertainty surrounding the evolution of the conflict and its potential adverse effects on the global economy.

These developments are unfolding in a context where significant financial vulnerabilities persist, particularly those associated with high fiscal indebtedness and elevated valuations of risky financial assets. The high level of sovereign debt —especially in advanced economies— and its potential effects on long-term financing costs remain a source of global concern. In addition, the conflict in the Middle East has heightened pressure for increased military spending and for programs aimed at mitigating the effects of higher energy prices. At the same time, the valuation of risky financial assets remains high by historical standards, raising the risk of an abrupt reversal.

The interaction between banks and non-bank financial intermediaries (NBFIs) in advanced economies' markets has also become a recurrent focus in recent financial stability reports of such jurisdictions. Concerns persist regarding the growing importance of NBFIs, particularly in private credit, given the limited information available on the quality of their loan portfolios and the extent of their interconnectedness with traditional banks. Although current evidence suggests that these vulnerabilities do not yet constitute a systemic risk to the global economy, their evolution requires continued monitoring (Box I.1).

More recently, concerns have also emerged regarding the implications that advanced artificial intelligence (AI) models may have for the cybersecurity of financial institutions and infrastructures. These tools may enhance the ability to identify and exploit vulnerabilities, increasing the risk of simultaneous incidents across interconnected systems. As a result, AI-related cybersecurity is acquiring a systemic dimension, making it necessary to strengthen resilience, supervision, and coordination among authorities and industry participants.

The local financial market has broadly mirrored developments in external markets. Both since the onset of the conflict in the Middle East and through the subsequent swings between escalation and truce, local asset prices have moved in line with those observed abroad. Thus, no anomalies have been detected in price formation mechanisms. Spreads have returned to their historical averages, firms have continued to issue bonds, and equity valuation indicators show no significant changes relative to the previous FSR.

In the local fixed-income market, changes have been observed in both the relative participation of different investor groups and the composition of their portfolios. The interaction of these factors could amplify the effects of larger shocks in this market. The recent increase in non-resident participation, while contributing to liquidity in the local fixed-income market, may also make it more sensitive to external shocks, as some of these investors tend to have shorter investment horizons than domestic institutional investors such as pension fund administrators and insurance companies. At the same time, recent investment strategies involving derivatives could, through margin calls, limit the countercyclical role that pension funds have played in the past. Mutual funds, for their part, have increased their exposure to bank bonds. In the event of redemptions from these funds, adjustments in the yields on such instruments could be amplified. Although interest rate volatility in the local market remained low in the global context during the events of March and April, these developments could, taken together, magnify the response to more severe episodes and increase market volatility. This underscores the importance of initiatives aimed at deepening the local fixed-income market, strengthening the resilience of its participants, and reducing their vulnerabilities. In this regard, relevant steps include the regulatory changes promoted by the Bank and the Financial Market Commission (CMF) to strengthen the repo market, the regulations issued by the Superintendence of Pensions to limit pension funds' exposure to derivatives, and the amendments to mutual fund liquidity regulations announced by the CMF for General Fund Administrators.

Within the framework of the pension reform, an orderly transition from the current multi-fund scheme to generational funds is essential to avoid disruptions in local financial markets. Making appropriate use of the flexibility provided by the law allows for a gradual implementation of changes to the investment regime of the funds, thereby avoiding abrupt portfolio adjustments that could affect the functioning of the local capital market. In this context, it is important to maintain continuous analysis and monitoring of the transition and its effects on market functioning.

SITUATION OF CREDIT BORROWERS AND LENDERS

Since the previous Report, households' financial vulnerabilities have remained low, while those of firms have had little change and remain at normal levels. Household indebtedness and financial burden as a share of labor income have remained broadly stable. Likewise, delinquency rates on consumer and mortgage loans show no major changes relative to the previous Report. At the end of 2025, aggregate corporate indebtedness as a share of output declined slightly compared with the previous Report, reflecting the evolution of GDP and the appreciation of the peso during that period. There were also no significant changes in the financial burden relative to firms' sales. However, the greater concentration of debt maturities in the coming years exposes local issuers to the risk of refinancing liabilities under less favorable conditions. The real estate sector's financial situation has shown some improvement, but remains weak, with high delinquency levels and a large stock of finished residential units for sale.

The financial situation of households and firms would allow them to withstand external risks without causing major disruptions in the financial system. Under a scenario of severe stress, bank debt at risk for firms would be similar to that reported in the previous Report, supported in part by the recovery in sales observed at the end of last year. In the case of households, debt at risk would increase only modestly, since their initial financial position has shown little variation relative to the previous year.

As noted in previous Reports, the persistence of fiscal deficits over several years has reduced fiscal space and increased sovereign debt. In addition, the maturity of public debt issuance has shortened, in line with global developments. This increases the frequency with which the Treasury must return to the market to roll over its debt, thereby raising its exposure to changes in financial conditions. Prudent fiscal management remains essential to preserving adequate financing conditions for households and firms, as well as the economy's capacity to mitigate the effects of shocks.

Banks have profitability, capital, and liquidity levels that would allow them to remain solvent under a scenario of severe stress. Although delinquency on commercial debt remains stable at elevated levels, banks continue to maintain safeguards through provisions and guarantees. At the same time, their financial position remains favorable, with profitability above historical averages and liquidity levels that exceed regulatory requirements. This has allowed recent dividend distributions above historical averages. Stress tests indicate that, under a scenario in which activity drops abruptly and funding costs rise significantly, banks would continue to maintain capital levels above regulatory requirements under the more demanding Common Equity Tier 1 (CET1) metric.

MAIN RISKS

Risks to global financial stability remain high amid a highly uncertain macroeconomic and international environment. The main risk to global financial stability is an abrupt deterioration in financial conditions. Such deterioration would be characterized by a rise in risk aversion, increasing demand for safer and more liquid financial assets. This would raise financing costs, lead to currency depreciation against safe-haven currencies, and reduce the funding available to emerging economies. An episode of this kind could be triggered by several factors. The most relevant is a possible intensification or prolongation of the conflict in the Middle East, or a greater impact of that conflict on global growth and inflation. Other triggers include abrupt changes in perceptions regarding the benefits of AI or a more negative assessment of fiscal sustainability in advanced economies. In the current setting, shocks to financial variables could be amplified and transmitted through the interconnections between banks and non-bank financial intermediaries.

At the local level, the materialization of these or similar risk scenarios could trigger capital outflows, increases in interest rates, and exchange rate movements. In addition, the real effects of the crisis in the Middle East could weaken domestic activity and employment, with adverse consequences for the debt repayment capacity of credit users. There are also operational risks associated with the cybersecurity of financial institutions and market infrastructures.

FINANCIAL POLICY DEVELOPMENTS

At its Financial Policy Meeting, the Board of the Central Bank of Chile decided to continue the convergence of the Countercyclical Capital Buffer (CCyB) toward its neutral level, raising it from the current 0.5% to 1% of risk-weighted assets (RWA), to be met within 24 months. This decision is based on the background information assessed in the RPF and the analysis contained in this Report, and was taken following a favorable prior report from the Financial Market Commission (CMF). In line with the policy framework released in November 2024, the Board will continue to assess macro-financial conditions, the risk environment, and their potential implications for the CCyB on a regular basis.

The Central Bank of Chile's regulatory agenda, aimed at strengthening the functioning of the money market and the management of systemic liquidity, advanced with the final publication of the regulatory framework for the recognition of master agreements for repo transactions and their close-out netting. This initiative was complemented by improvements to the regulations promoted by the Financial Market Commission regarding bank capital requirements applicable to self-securitized instruments and repos. A new regulatory framework was also established to strengthen the liquidity management of central counterparties, encouraging participants to post cash collateral in the settlement accounts they hold at the BCCh. In line with the BCCh's objective of promoting an efficient and secure development of the payments system, the final regulations to expand access to the RTGS System to non-bank entities and to enable the use of cards in public transport will be defined in the coming weeks. In addition, the scope of the Comprehensive Derivatives Information System (SIID-TR), operated by the BCCh, was expanded to include information on derivatives contracts by General Fund Administrators (AGF). Finally, regarding the pension reform implementation, the BCCh defined the foreign investment limits applicable to the Generational Funds (FFGG) and the Autonomous Pension Protection Fund (FAPP).

The Chilean economy has macroeconomic strength and robust financial regulation and supervision standards, which provide adjustment mechanisms and buffers to mitigate the effects of severe shocks. The local institutional framework includes tools to address exceptional scenarios, as well as coordination mechanisms among authorities and regulators. Banks have continued to strengthen their capital base, and their solvency indicators have improved in line with Basel standards. Within this context, the Countercyclical Capital Buffer strengthens the resilience of the banking system, since it can be released fully or partially in scenarios of severe financial stress, thereby generating greater regulatory space and providing more flexibility for bank balance-sheet management. In this way, it reduces the likelihood that capital levels become a constraint on the supply of credit, which could otherwise amplify macroeconomic deterioration and delay the economy's recovery process.

I.FINANCIAL MARKETS' TRENDS

The conflict in the Middle East led to a deterioration in financial conditions during March, a trend that has begun to reverse in recent weeks following negotiations among the economies involved. Consequently, international financial conditions have tended to align with a positive outlook regarding the conflict's resolution. In the meantime, local markets have followed the trends observed in external markets and have traded in an orderly manner. Notwithstanding, the main risk to local financial stability continues to stem from a sudden deterioration in financial conditions that could result from an escalation of the Middle East conflict or its implications for world inflation and growth. Globally, vulnerabilities associated with high fiscal indebtedness and continued elevated asset price valuations persist, thus maintaining risks from increasing long-term interest rates and abrupt reversals in asset prices. Added to this, there are concerns regarding the interconnections of non-bank financial intermediaries (NBFIs) with the rest of the financial system, particularly recent disruptions in the private credit market. Locally, the high volume of short-term maturities of bank and corporate bonds constitutes a vulnerability to the risk associated with interest rate hikes. Furthermore, recent changes in non-resident participation and in the portfolios of local institutional investors could amplify the transmission of external volatility events to our economy, underscoring the importance of strengthening market depth and the resilience of market participants.

THE INTERNATIONAL FINANCIAL SITUATION

Financial markets have seen sharp fluctuations since the outbreak of the Middle East conflict, although they remain optimistic about its economic implications. Since late February, there has been increased volatility in fixed-income and equity markets, an appreciation of the dollar, and a decline in stock prices, events that have reversed in recent weeks following efforts to initiate negotiations among the parties involved, suggesting that financial markets view the conflict's duration and consequences with optimism (figures I.1 and I.2). Equity and currency markets have shown no significant disruptions (GFSR, April 2026), liquidity conditions in the sovereign debt market have remained stable (Figure I.3), and there has been no observed increase in the use of dollar liquidity swaps that the Federal Reserve maintains with other central banks. In this context, while there have been downward revisions to global growth for both 2026 and 2027, these have been limited (WEO, April 2026). In any case, as of the closing of this Report, traffic through the Strait of Hormuz has not normalized, which has kept oil prices high, raising expected global inflation, and leading to an adjustment in expectations toward a more contractionary monetary policy in the United States and the rest of the world (Figure I.4).

FIGURE I.1 ***1 Volatility indexes have increased since late February, declining after negotiation efforts…***
VOLATILITY INDICATORS (1)(2)
(index)

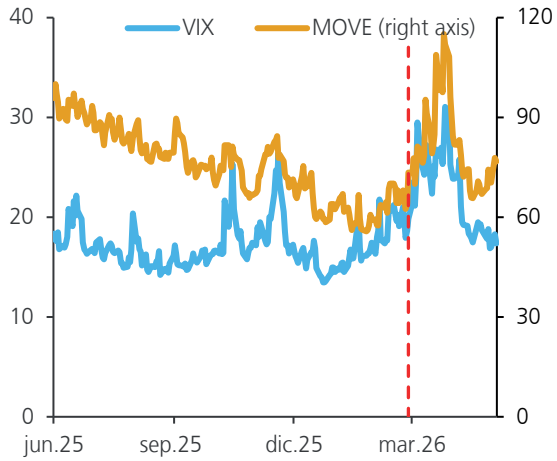


FIGURE I.2 ***…while stock markets, after undergoing corrections, have recovered.***
STOCK MARKETS (2)
(index, base 100 = 10-29-2025)

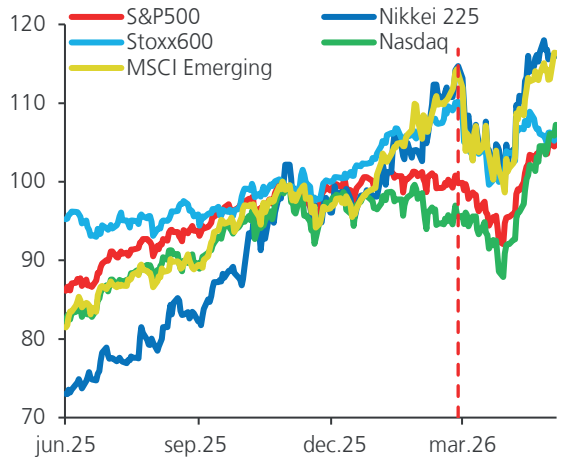


FIGURE I.3 ***Liquidity conditions have remained stable in sovereign debt markets.***
SOVEREIGN DEBT MARKET LIQUIDITY INDICATOR (2) (3)
(basis points)

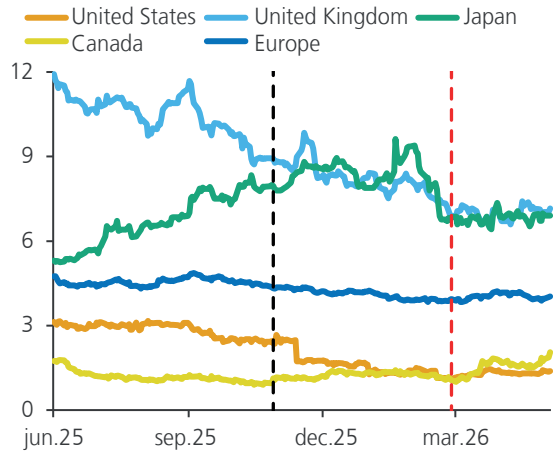
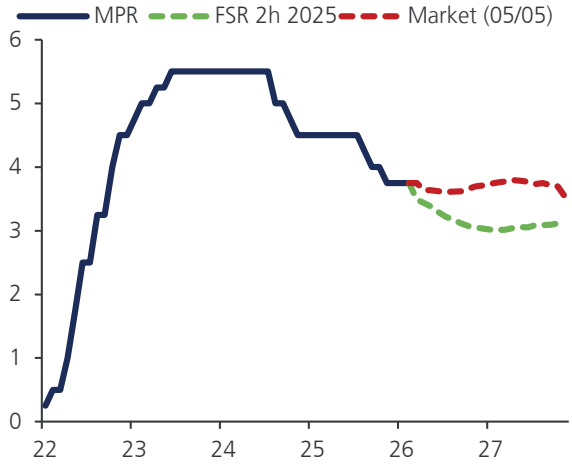


FIGURE I.4 ***Expectations for the U.S. policy rate have become more contractionary since the last FSR.***
EFFECTIVE AND EXPECTED U.S. POLICY RATE (4)
(percent)



(1) 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. (2) Red vertical line marks the outbreak of the conflict in the Middle East. (3) Forecasting error of the yield curve for maturities of one year or longer. Thus, when liquidity conditions are favorable (tight), the average forecasting error is lower (higher). Black vertical line indicates the statistical cutoff point for the previous IEF. (4) Effective monetary policy rates on a monthly basis. The dotted lines represent the implied monetary policy rate in the financial market on each date, from the second quarter of 2026 through December 2027.
Source: Central Bank of Chile based on Bloomberg data.

Vulnerabilities associated with high levels of public debt persist globally, which may be a factor in keeping long-term financing costs high (Figure I.5). In recent years, there has been a persistent increase in public debt in advanced economies (Fiscal Monitor, April 2026), and this trend is expected to continue through the end of the decade (Figure I.6). Furthermore, developed economies have increased their defense spending, which has exacerbated pressures on public debt (OECD, March 2026). Meanwhile, in developing economies—especially low-income ones—fiscal policy has faced the dilemma of either cushioning the costs associated with rising prices or safeguarding public finances (Fiscal Monitor, April 2026).

The high valuations of risky assets, especially those associated with artificial intelligence (AI), keep the risk of price corrections on the table. Before the conflict erupted, the valuation of equity financial assets was near historic highs, declining after the event but remaining high relative to their historical averages, especially in the United States (Figure I.7). Furthermore, the narrowing of the price-to-expected-earnings ratio has been driven primarily by rising profitability expectations linked to advances in AI. In the case of fixed income, despite increases in corporate spreads following the conflict, these remain at low levels relative to their historical averages (Figure I.8). As highlighted in previous reports (IEF second half of 2025), a loss of risk appetite among investors could lead to a significant correction in the valuation of these assets.

FIGURE I.5 ***Ten-year sovereign interest rates have increased since the start of the war…***
10-YEAR SOVEREIGN INTEREST RATES (1)
(percent)

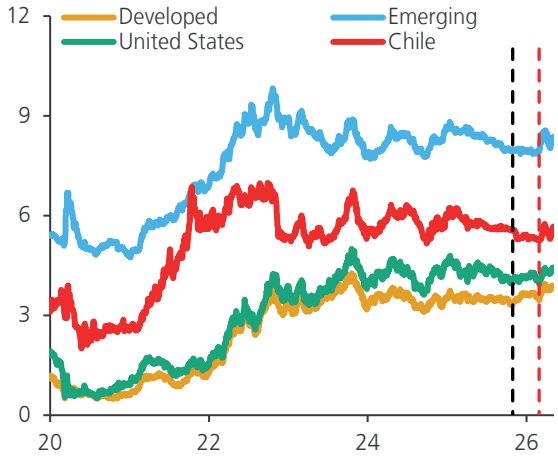
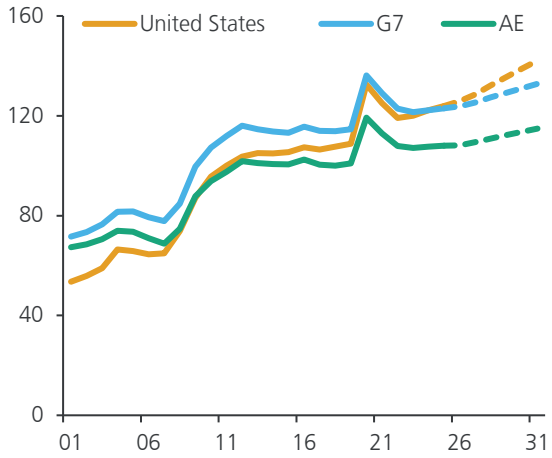


FIGURE I.6 ***…while gross sovereign debt continues to rise and no corrections are expected in the short or medium term.***
GROSS GOVERNMENT DEBT (2)
(percent of GDP)



(1) Black vertical line marks statistical cutoff date for the previous IEF; red vertical line marks the outbreak of the war in the Middle East. The "Emerging markets" category shows the average of the following countries: Brazil, Chile, Colombia, Hungary, India, Indonesia, Mexico, Peru, Poland, and South Africa. Developed countries includes the average for: Australia, Canada, Germany, Italy, New Zealand, Norway, Singapore, Spain, Sweden, South Korea, and the United Kingdom. (2) AE: Advanced economies, including a set of 41 economies as defined by the IMF from 2001 to 2026.
Source: Central Bank of Chile based on the IMF's WEO OF April 2026.

FIGURE I.7 ***Stock market valuations remain above their historical average…***
PRICE TO EXPECTED EARNINGS ONE YEAR OUT
(ratio)

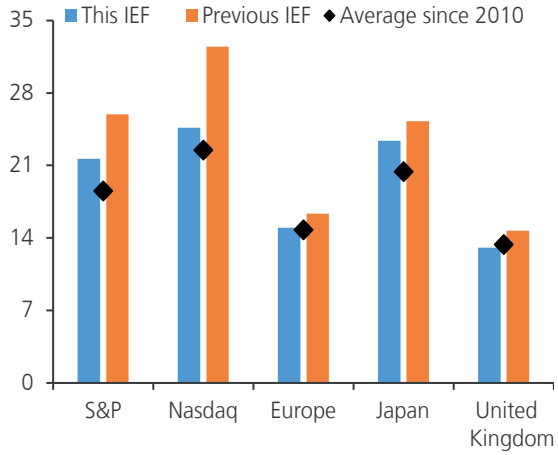
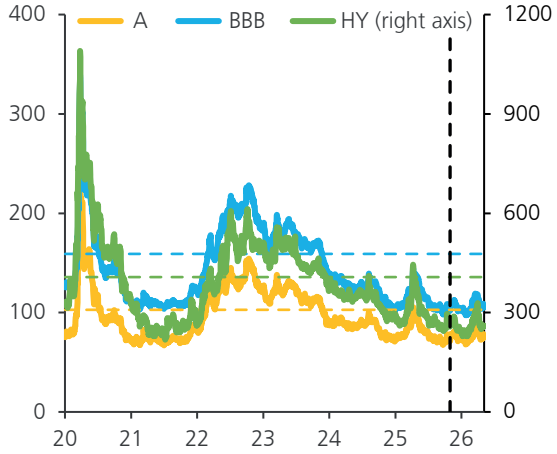


FIGURE I.8 ***…while U.S. corporate spreads are near historical lows.***
U.S. CORPORATE SPREADS (*)
(basis points)



(*) Black vertical line indicates the previous IEF's statistical cutoff date. HY: High yield. Horizontal dashed lines represent the average for the years 2013 through 2023.
Source: Central Bank of Chile based on Bloomberg data.

Concerns persist regarding the role of non-bank financial intermediaries (NBFIs) in advanced economies, given their interconnections with the banking sector and the rest of the financial system. The potential effects of NFBIs' investment decisions on the banking sector and other financial market participants are a subject of ongoing monitoring (IEF second half of 2025, GFSR, October 2025). In the case of hedge funds, their increased participation in the sovereign debt market could affect interest rate volatility (GFSR, October 2025), especially during episodes of shifts in global risk aversion. Additionally, recent evidence suggests that hedge funds and mutual funds tend to make larger adjustments to their investments in emerging economies in response to increases in volatility. In a scenario of heightened risk aversion, a decline in investment by these NBFIs could tighten financial conditions, leading to portfolio adjustments (Adrian et al., 2019; GFSR, April 2026). In the private credit sector, concerns about portfolio quality have risen in recent months, primarily due to exposure to the software industry, whose firms could be displaced by AI. This has triggered increased capital outflows from private credit funds, raising concerns about the potential impact on the rest of the financial system (Box I.1).

THE DOMESTIC FINANCIAL SITUATION

Local financial markets have moved in tandem with external markets following the escalation of the conflict in the Middle East. After the first attacks took place, the local stock market dropped and exchange rate volatility increased (Figure I.9). This, however, did not affect price formation in the foreign exchange market (Figure I.10). Likewise, there was a rise in inflation expectations, leading to increases in short-term rates and greater demand for CPI-indexed instruments. Thus, most recently, long-term corporate bond rates in UF and their respective spreads against overnight index swap rates stand at levels somewhat below those in the previous IEF (figures I.11 and I.12), a situation that holds true for UF-indexed bank bond rates and spreads.

FIGURE I.9 ***The exchange rate has absorbed recent external shocks…***
NOMINAL EXCHANGE RATE VOLATILITY IN EMERGING ECONOMIES (1)
(percent)

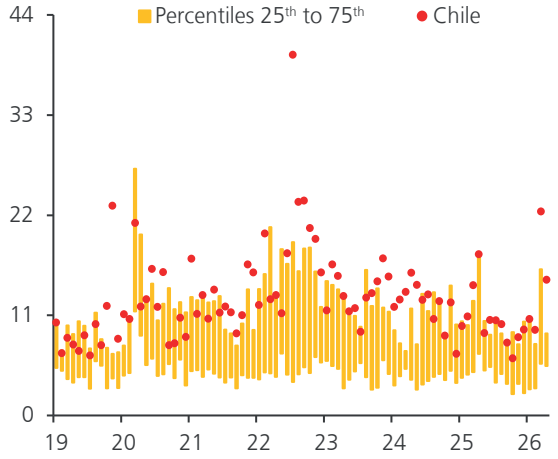


FIGURE I.10 ***…with no disruptions observed in the functioning of the local foreign exchange market.***
BID-ASK SPREAD OF THE EXCHANGE RATE (2)(3)
(percent)

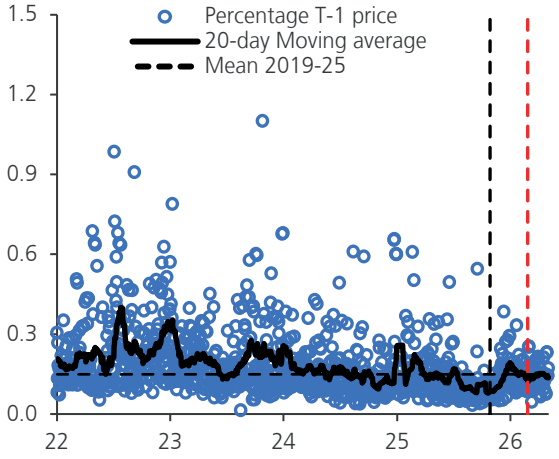


FIGURE I.11 ***Interest rates on UF-indexed corporate bonds have declined slightly…***
INTEREST RATES ON 10-YEAR UF-INDEXED CORPORATE BONDS (3)(4)
(percent, 10-day moving average)

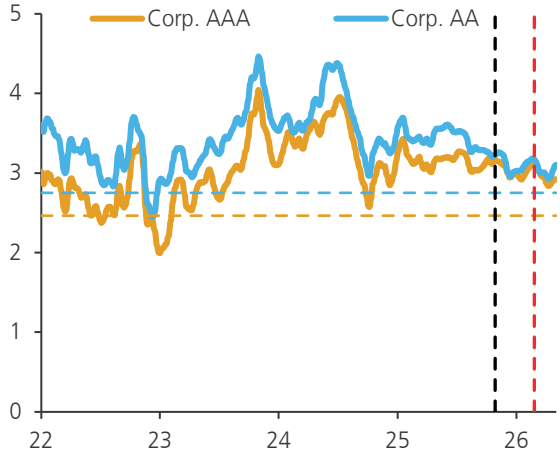
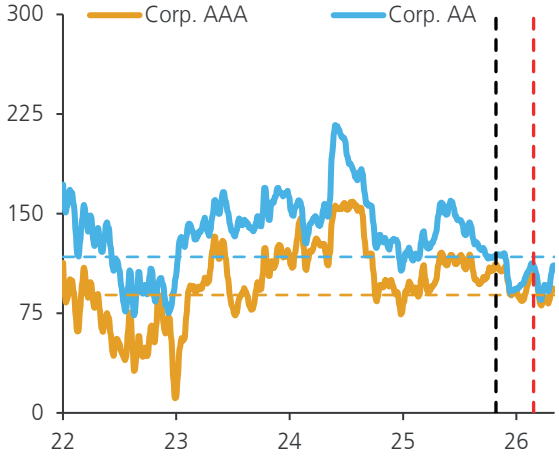


FIGURE I.12 ***…as have spreads for this group of issuers.***
SPREAD OF 10-YEAR UF-INDEXED CORPORATE BONDS (3)(4)(5)
(basis points, 10-day moving average)



(1) Bars show difference in volatility between the 25th and 75th percentiles of a set of emerging economies including Brazil, China, Colombia, Hungary, India, Indonesia, Malaysia, Mexico, Peru, Poland, Russia, and Turkey. Annualized standard deviation of daily returns for each month. (2) The bid-ask spread is shown as a percentage of the previous day's closing price. The horizontal line represents the average spread between 2019 and 2025. (3) Black vertical line marks statistical cutoff date for previous IEF; red vertical line marks the outbreak of the war in the Middle East. (4) The data represent RiskAmerica's generic bond rates. (4) The horizontal lines represent the average of each series between 2013 and 2019. (5) Spreads on SPC UF. Data correspond to spreads calculated based on RiskAmerica's generic bond rates. The horizontal lines represent the averages for the years 2013 through 2019.
Source: Central Bank of Chile based on Bloomberg and RiskAmerica data.

The local sovereign fixed-income market has seen increased participation by non-residents, which has fostered its development. However, this could amplify the impact of external shocks on the local market. Since early 2024, portfolio investment in the financial account has shown net capital outflows driven by variable-income flows, which have been partially offset by fixed-income inflows (Figure I.13), a situation that is mirrored in other emerging economies (GFSR, April 2026). Since early 2025, there has been a notable increase in non-resident investment in local fixed income, concentrated in nominal sovereign debt assets (Figure I.14). This increased demand from foreign investors contributes to the development of fixed-income and derivatives markets by diversifying the investor base, increasing liquidity, strengthening price formation, and serving as a mechanism to mitigate local shocks (IEF, second half of 2025). However, the greater participation of these investors could also spur the vulnerability of the local financial market to episodes of heightened global risk aversion, should significant portfolio adjustments occur by investors more sensitive to global financial conditions, such as hedge funds and mutual funds (GFSR, April 2026).

High levels of bank and corporate bonds are expected to mature in the coming years. Issuance of bank and corporate bonds in the domestic market has shown increased dynamism in recent quarters (Figure I.15), with issuing rates and spreads slightly below the levels reported in the previous IEF. Meanwhile, maturities of bank and corporate bonds over the next three years remain high by historical standards (Figure I.16). Concentration of maturities can create refinancing risk in scenarios of sharp rises in the yield curve, especially when the curve moves in parallel, as this simultaneously increases the cost of refinancing across all maturities.

Mutual funds continue to increase their share of the banking fixed-income market. Assets managed by mutual funds remain at around 22% of GDP (Figure I.17). These funds' investments in bank fixed income have tripled in value since 2022, offsetting the unwinding of pension fund positions (Figure I.18). However, unlike pension funds, mutual funds manage their positions in a way that is subject to redemptions by investors, which could amplify interest rate movements in times of stress. That said, the weighted average maturity of investments by the main investors—Type 3 funds—shows a gradual decline (see statistical appendix), which, together with an increase in these funds' investments in more liquid assets, would reduce the risk of large price adjustments in the event of forced selling. In line with the above, the CMF continues to refine the regulations establishing liquidity requirements for mutual funds (CMF, 2026–2027 Regulatory Plan).

The growth in pension funds' positions in interest rate swaps has moderated compared to previous years, but remains high (Figure I.19). Pension funds' net long position in long-term dollar interest rate derivatives has changed little compared to the previous IEF, as has their net short position in dollar-denominated shorter-term instruments. As noted in previous IEFs, this gross position increases pension funds' exposure to the risk of rises in the long end of the interest rate curve (IEF second half of 2025). The recent regulations governing pension fund derivatives transactions issued by the Superintendency of Pensions incorporate new exposure limits and liquidity requirements (Exempt Resolution No. 549) mitigates the financial stability risks associated with liquidity needs to cover margin calls on these transactions, and mandates that new derivative transactions be subject to counterparty risk mitigation mechanisms (General Rule No. 362), which will take full effect next year (Chapter IV).

FIGURE I.13 ***Despite lower equity investment, the financial account shows inflows…***
NET FINANCIAL ACCOUNT: PORTFOLIO INVESTMENT (1)
(billions of dollars, annual moving sum)

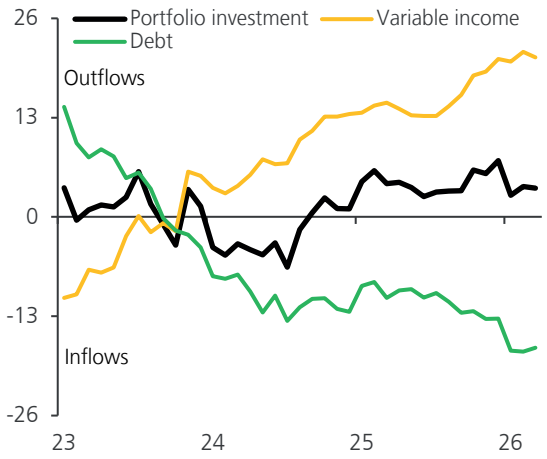


FIGURE I.14 ***…alongside increased investment by non-residents in peso-denominated sovereign fixed income.***
INSTITUTIONAL INVESTORS' SHARE IN PESO-DENOMINATED SOVEREIGN FIXED INCOME (2)
(percent of total)

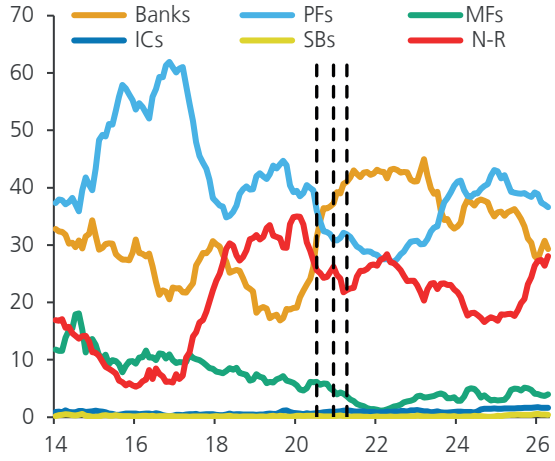


FIGURE I.15 ***Debt issuances show greater dynamism and stand near historical averages…***
LOCAL CORPORATE AND BANK BOND ISSUANCES (3)
(percent of GDP)

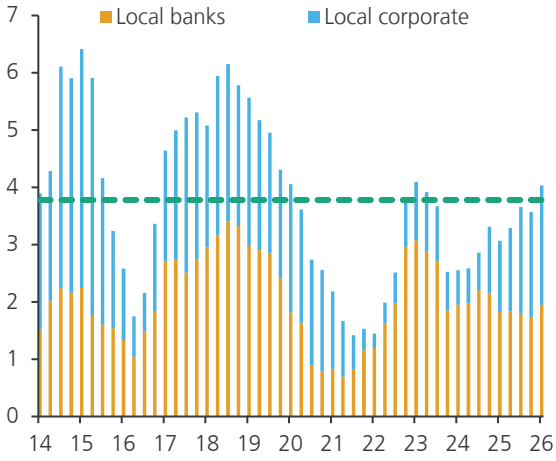
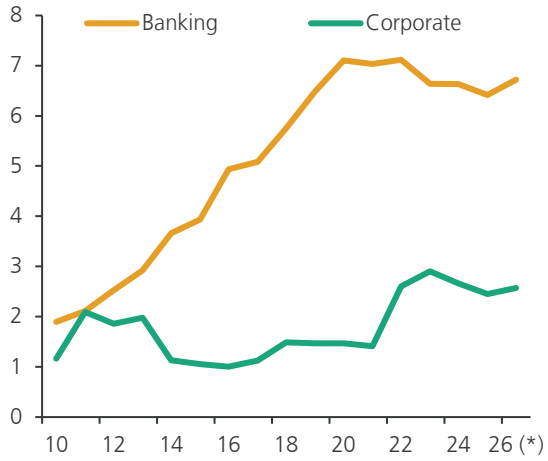


FIGURE I.16 ***…however, maturities in the coming years remain elevated.***
SCHEDULED MATURITIES OVER A THREE-YEAR HORIZON: BANK AND CORPORATE BONDS (4)
(percent of GDP)



(1) Financial account data as of March 2026. A positive value indicates an increase in creditor position (cash outflows); a negative value indicates an increase in the debtor position (cash inflows). (2) Vertical lines indicate withdrawals from pension funds. PFs: Pension funds; MFs: Mutual funds; SBs: Stockbrokers; ICs: Insurance companies; N-R: Non-residents (estimated). The figure includes bonds issued in Chilean pesos on the local market by the Central Bank of Chile and the General Treasury of the Republic. (3) The data represent the sum of four rolling quarters of GDP in dollars. 2026.I GDP estimated based on March 2026 EEE. The horizontal line represents the average for the years 2014 through 2025. (4) Refers to bond maturities in the domestic market. Data at the end of December of each year, except for 2026, which is as of 28 April. Maturities are shown based on a three-year horizon (1,095 days). The denominator corresponds to the sum of four rolling quarters of GDP. GDP for March 2026 estimated based on March 2026 EEE.
Source: Central Bank of Chile based on information from the information from BCS, DCV, and RiskAmerica.

FIGURE I.17 ***Mutual fund portfolios have evolved positively...***
MUTUAL FUND INVESTMENTS (1)(2)
(percent of GDP)

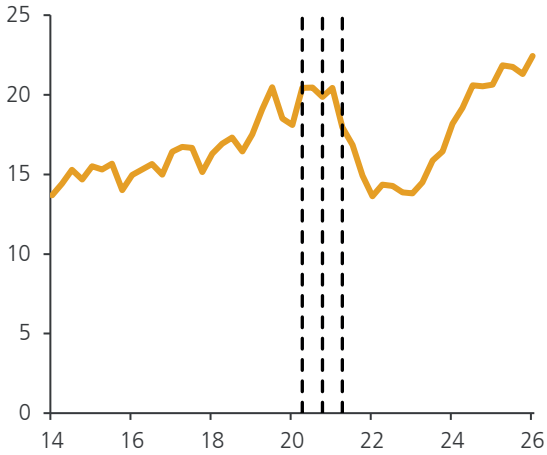
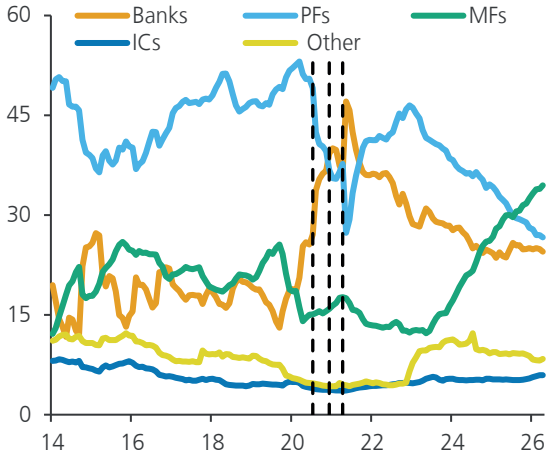
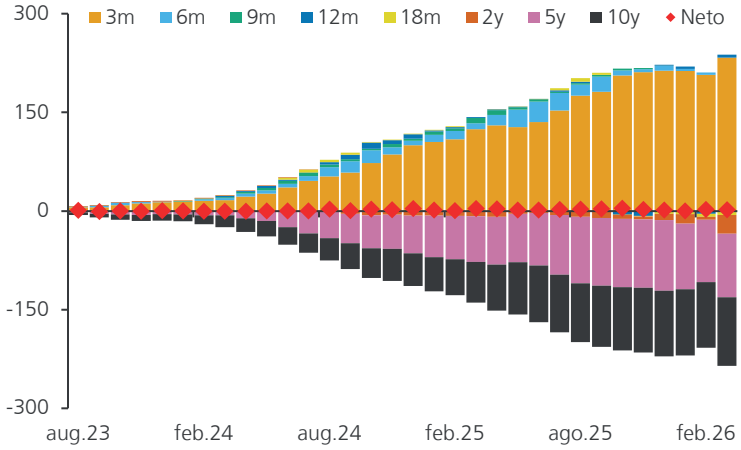


FIGURE I.18 ***...with a higher positioning in bank bonds standing out.***
INSTITUTIONAL INVESTORS' SHARE IN BANK FIXED INCOME (2)(3)
(percentage of total)



(1) Quarterly data. First-quarter 2026 data estimated using March EEE. (2) Vertical lines show withdrawals from pension funds. (2) PFs: Pension funds; MFs: Mutual funds; SBs: Stockbrokers; ICs: Insurance companies; N-R: Non-residents (estimated).
Source: Central Bank of Chile based on CMF and DCV data.

FIGURE I.19 ***Exposure to foreign interest rate swaps has remained high.***
TOTAL NET AMOUNTS OUTSTANDING OF FOREIGN INTEREST RATE SWAPS HELD BY PENSION FUNDS (*)
(billions of dollars)



(*) Positive values indicate a net long position in variable-rate interest by pension funds (they receive variable-rate interest and pay fixed-rate interest); negative values indicate net short position in variable-rate interest (they receive fixed-rate interest and pay variable-rate interest).
Source: Central Bank of Chile.

MAIN RISKS

The main risk for local financial stability continues to be linked to an abrupt tightening of global financial conditions. An escalation of the conflict in the Middle East or a persistence of tensions in the region could serve as catalysts for this risk. This scenario would be characterized by greater risk aversion, which would raise financing costs, depreciate currencies, and reduce the funding available to emerging economies. In addition, there could be more adverse than expected impacts on both global growth and inflation—due to oil supply constraints—which would undermine the ability of economic agents to honor their financial commitments.

High levels of government debt in advanced economies and pressure to increase spending in the coming years could push up long-term interest rates around the world. Fiscal pressures and lower growth prospects associated with the conflict in the Middle East are compounding the already high levels of debt in developed economies. This could lead to increases in long-term interest rates, putting additional pressure on the repayment capacity of highly leveraged firms, including those financed by private credit, which could intensify vulnerabilities in this market segment.

Rising long-term interest rates could trigger new episodes of risk aversion that would affect emerging economies. Accordingly, given the increased role of non-residents in financing local firms, a rise in global risk aversion could tighten financial conditions in the domestic market.

Finally, scenarios of an abrupt reversal in asset prices linked to shifts in expectations regarding the impact of AI on growth and productivity cannot be ruled out. While earnings in the sector have risen (BIS, 2025; ECB, November 2025), high valuations continue to rely on expected profits that may or may not materialize. Furthermore, there are risks inherent to the AI system, including high concentration in a small group of leading companies and their growing interconnectivity, which heighten the risks of contagion and potential corrections. In this context, a reduction in demand for assets in this sector—resulting from lower-than-expected productivity gains or shifts in risk appetite—could trigger corrections in valuations, spilling over into private credit and fixed-income markets, where AI-related companies are gaining an increasingly larger share due to their greater use of debt to finance growth (IPoM, December 2025).

BOX I.1:

Risks associated with the private credit market abroad

Private credit (PC) is a form of financing through which companies obtain loans from non-bank financial intermediaries (NBFIs). PC funds primarily raise capital from institutional investors (such as pension funds, insurance companies, and sovereign funds) to provide credit to businesses. PC is structured through more flexible contracts, but is also potentially subject to fewer traditional regulatory frameworks. By nature, the assets of PC funds are illiquid, have medium- to long-term maturities, and lack a developed secondary market. In line with this, PC funds typically impose limits on the frequency and magnitude of redemptions that investors can request—for example, quarterly redemptions limited to 5% of the fund's value. In recent years, the use of vehicles with greater liquidity, such as business development companies (BDCs), has increased, driving greater participation by retail investors (Avalos et al., 2025; FSB, 2026).

In developed economies, particularly in the United States, the private credit market has grown significantly since the Global Financial Crisis (GFC). The reasons behind this rapid expansion are believed to be linked to both supply- and demand-side factors. The low interest rates that characterized the global economy following the GFC may have encouraged long-term institutional investors, such as pension funds and insurance companies, to seek higher returns, which would have increased demand for investing in private credit. Meanwhile, following the GFC, increased regulatory requirements, which aimed to reduce risk in banks' portfolios, may have discouraged the issuance of risky loans (Chen et al., 2017; Davydiuk et al., 2024; Avalos et al., 2025). In this regard, the growth of PC would have helped mitigate the banks' withdrawal, enabling the provision of financing to small and medium-sized enterprises.

Broadly speaking, private credit should be assessed from the perspective of financial stability, particularly given its interconnections with the banking sector and other non-bank financial institutions. These can occur both directly, through loans that banks grant to private equity funds, and indirectly, through the financing of firms that also receive private equity. Additionally, the close relationship between banks, private equity, and insurance companies can contribute to amplifying potential losses within the financial system (Ivashina, 2025). In any case, available data suggests that direct bank exposure is limited (FSB, 2026). However, the sector's lack of transparency—including the use of private risk ratings and the valuation of investments through proprietary models—makes it difficult to assess the level of risk and changes in the valuation of private equity portfolios, as well as the level of systemic exposure, considering banks and other financial market players.

In recent months, there has been an increase in redemption requests from private credit vehicles in developed economies (Fed, 2026). Private credit has increased its exposure to software development firms in recent years (BIS, January 2026), whose valuations have been impacted by fears that AI could displace them. During this period, retail investors have requested redemptions that have forced portfolio managers to enforce their limits or, in some cases, relax them. In any case, this structure limiting the size of withdrawals helps protect these funds from liquidity mismatches, mitigating the systemic impact that such disruptions could have (GFSR, April 2026).

At the global level, although recent developments and characteristics of this market do not pose immediate systemic risks (GFSR, April 2026; Fed, 2026) this segment must continue to be monitored. There are numerous connections between private credit and the banking sector, and information gaps remain that prevent their accurate quantification. The recent volatility observed in this sector and the exit of investors from this market have not had significant implications. Thus, while price corrections have been observed in the shares of companies managing large PC funds, as well as in BDCs in recent months, the rest of the stock market—particularly the banking sector—has not been affected (Figure I.20). Nonetheless, it is important to continue monitoring the quality of the portfolio underlying these investments, the ability of investment vehicle managers to meet likely future redemption requests, and to close remaining information gaps in order to identify and analyze the various channels through which banks are exposed to this sector.

In Chile, the market of private credit is still in its early stages of development. It is important to continue monitoring the evolution of this sector to understand its connections with the rest of the financial system. Local PC funds manage assets totaling US$7.036 million, which is still low compared to other sources of corporate financing (Table I.1). To date, debt financing by these funds appears to be limited, as only 7.5% of them hold any financial liabilities (e.g., bank loans). Within this group, the average debt-to-asset ratio is 0.2 times. This suggests limited banking sector exposure to these funds. As for institutional investors' exposure to PC vehicles, this remains constrained. For pension funds, it amounts to US$3.298 million—mostly in international investment funds—equivalent to 1.3% of the funds' value[1]/. In the case of insurance companies, their exposure would be US$ 895 million, or 1% of investments[2]/.

FIGURE I.20 ***Valuations of BDCs and private credit fund managers have declined in recent months, a pattern not observed in the rest of the financial market or in the banking sector.***
STOCK MARKETS (1)
(index, base 100 = Aug. 29, 2025)

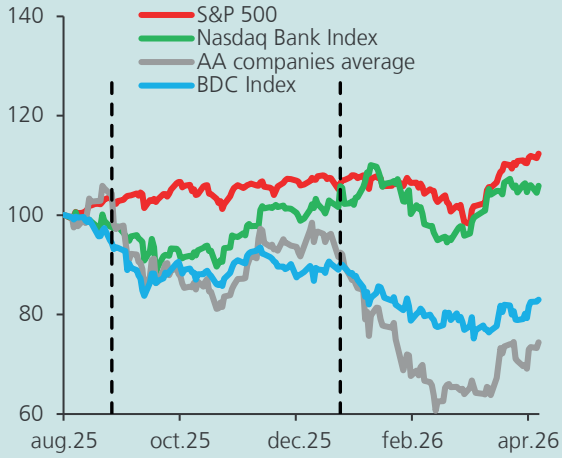


TABLE I.1 ***In the local market, private debt funds are smaller than other sources of financing.***
SOURCES OF CORPORATE FINANCING (2)

Debt	USD million	% GDP
Bank debt	143,862	38.6
Bonds	45,374	13.3
IF: Private debt	7,036	1.9

(1) First (left) vertical line marks bankruptcy of First Brands (23 September); second (right) line marks publication of Moody's report on the high exposure of private credit to AI. "AA companies average" is simple average of stock prices of alternative asset managers (Blue Owl, Carlyle, KKR, Blackstone, and Apollo). The alternative asset class includes private credit as well as venture capital and private equity, among others. (2) (*) Data up to December 2025.
Central Bank of Chile based on Bloomberg, CMF, and SII data

[1]/ For further information, see Superintendency of Pensions (2025).
[2]/ Data up to March 2026.

II. BORROWERS

Since the previous Report, household vulnerabilities have remained low, while those of firms have stayed mostly unchanged. This is reflected in the stabilization of financial indicators, such as indebtedness and the debt burden. The real estate sector shows some signs of improvement but remains weak, with high delinquency rates and a large inventory of completed homes. Commercial delinquency has stabilized at high levels, a situation that would not be a major weakness for the banking sector, given the related provisions and collateral. Meanwhile, consumer and mortgage loans have maintained their delinquency rates broadly unchanged compared to the previous Report, standing at levels similar to those observed before the Covid-19 support policies, which contributed to the overall improvement in repayment conditions. Looking ahead, the main risk involves a deterioration in financing conditions or local economic activity, given their negative impact on borrowers' ability to repay. However, stress tests point to limited impacts. Regarding public finances, persistent deficits over several years have reduced fiscal buffers and pushed up public debt.

FIRMS

Aggregate corporate debt as a percentage of GDP declined slightly compared with the previous IEF, due to slow growth in commercial loans, GDP growth, and the appreciation of the peso[1]/. At the end of 2025, nonbank corporate debt reached 103% of GDP, a figure lower than that reported in the previous Financial Stability Report (106%) and at the end of 2024 (113%) (Figure II.1)[2]/. While the firms' demand for bank credit remained subdued (Bank Lending Survey BLS, various surveys from 2025 and the first quarter of 2026), the past year saw increased activity in domestic corporate bond issuances (Chapter I). These have been focused on refinancing liabilities. Meanwhile, loans maturing in the coming years remain high, meaning greater exposure to the risk of having to refinance debt under unfavorable terms.

Other financial indicators for businesses showed no significant changes. Among larger firms that report to the CMF, profitability declined (Figure II.2). Meanwhile, the debt-to-equity ratio remained stable, while interest coverage and liquidity declined slightly. Meanwhile, firms that are financed primarily by local banks maintained stable financial indicators, such as financial burden and debt-to-sales ratio (Figure II.3). However, it cannot be ruled out that external geopolitical uncertainty could lead to higher banking interest rates for firms (Box II.1).

[1]/ In 2025, economic activity grew by 2.5% compared to the previous year (Chile's National Accounts, 2018–2025). During the same period, the nominal exchange rate declined by 8%. By the end of the first quarter of 2026, the valuation effect of external debt will have a positive impact on the debt level, considering the evolution of the exchange rate.

[2]/ Corporate debt excludes banks; this, along with certain differences in data sources and valuation methodologies, explains much of the discrepancy with the National Accounts by Institutional Sector, which also exclude other financial institutions. In those statistics, debt is estimated at 90% of GDP as of the end of 2025. For more information, click here.

FIGURE II.1 ***Aggregate corporate debt declined as a share of GDP.***
NON-BANK CORPORATE DEBT (1)(2)
(percent of GDP)

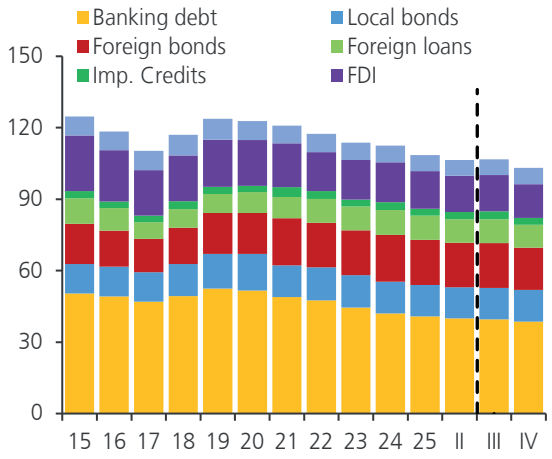


FIGURE II.2 ***Firms reporting to the CMF kept indebtedness, interest coverage, and liquidity stable.***
FINANCIAL INDICATORS (1)(3)
(percent of total assets; times financial expenses; times equity; times)

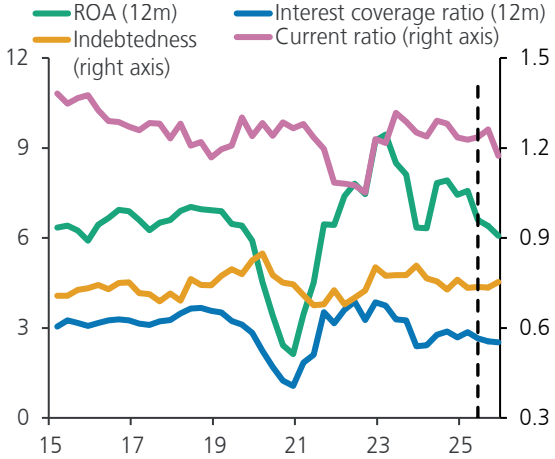


FIGURE II.3 ***Firms financed by local banks kept their indebtedness stable.***
DEBT-TO-SALES RATIO (1)(4)
(times monthly sales, quarterly moving average, median)

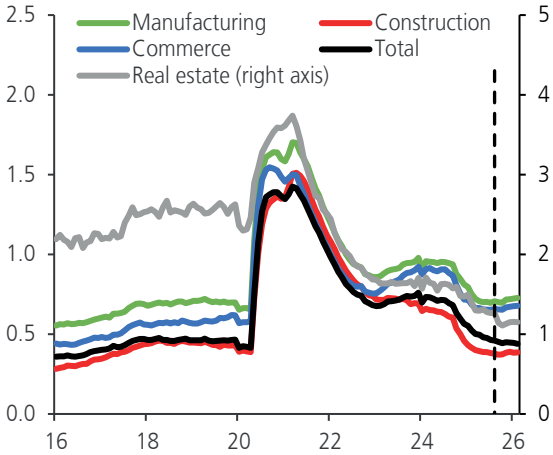
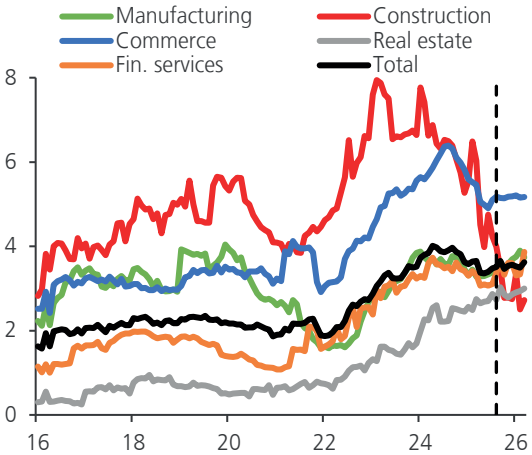


FIGURE II.4 ***Corporate bank nonpayment shows stabilization, but at elevated levels.***
INDIVIDUAL NONPAYMENT (1)(4)(5)
(percent of debt)



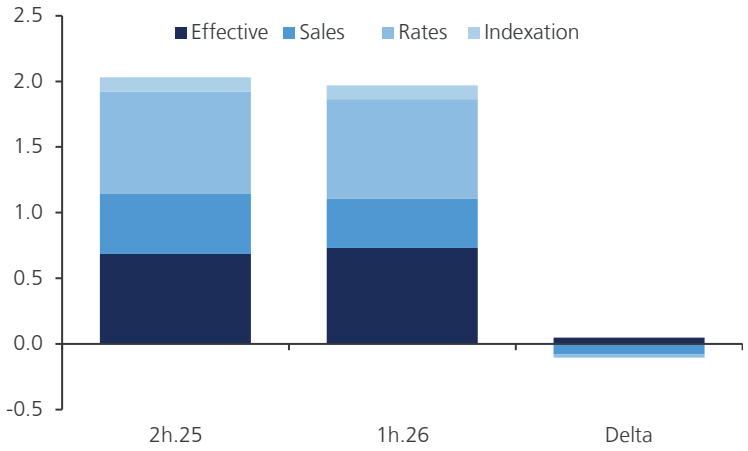
(1) Vertical lines indicate the IEF's year-end figures for the second half of 2025. (2) Based on firm-level data, excluding factoring, leasing, and other services, securitized bonds, and commercial papers. (3) Return on assets calculated as cumulative profit over twelve months before interest and taxes, divided by total assets. Interest coverage defined as profit over twelve months before taxes and interest, divided by annualized interest expense. Indebtedness calculated as debt-to-equity ratio. Current ratio calculated as current assets over current liabilities. State-owned enterprises and those classified in the financial services and mining sectors are not included. (4) Firms with local bank financing. Individuals not considered.(5) Individual default indicator estimates commercial delinquency using administrative accounting data. It considers commercial debt more than 90 days past due for each debtor-bank relationship as a share of total commercial debt.
Source: Central Bank of Chile based on CMF and SII data.

Corporate bank delinquency rates have stabilized but are still high. Since the previous IEF, individual firm defaults have remained at around 3.6% of the debt. This figure is higher than the 2.1% average recorded between 2016 and 2019, prior to the pandemic (Figure II.4)[3]/. By sector, delinquency rates in the real estate, trade, and financial services sectors stands out, while, more recently, an increase was observed in manufacturing. This situation does not suggest further weakness for the banking sector, given the provisions and collateral already in place (Chapter III).

STRESS TEST FOR FIRMS[4]/

Under stress, corporate debt at risk would reach 2% of GDP, a level similar to that reported in the previous IEF (Figure II.5). The stress scenario typically considered by the IEF is equivalent to the major crises our economy has faced in the past in terms of a drop in sales and an increase in interest rates and inflation. In the current test, debt at risk remains very close to the previous exercise due to the mutual offsetting of two opposing effects: a limited increase in actual bank defaults between June and December and a smaller impact from the sales shock. The stress scenario outlined could be triggered by various external shocks, one of which involves an escalation of the conflict in the Middle East, where a prolonged rise in fuel and energy prices would intensify cost pressures, undermining the repayment capacity of sectors most intensive on these inputs, such as transportation and commerce.

FIGURE II.5 ***Under a stress scenario, corporate debt at risk would not differ significantly from that reported in the previous Report.***
COMMERCIAL DEBT AT RISK (*)
(percentage of 2025 GDP)



(*) Firms with local bank financing. Does not include consumer loans. The figure represents the amount owed by each firm, weighted by its individual probability of defaulting within the next year. At December 2025, the share of commercial debt in each sector is: trade (18%); construction (14%); real estate (18%); manufacturing (7%); financial services (15%); and other (29%).
Source: Central Bank of Chile based on CMF and SII data.

[3]/ In February 2026, the delinquency rate stood at 6.3% of commercial loans, slightly below the 6.4% reported in the previous issue, but still above the levels prior to 2022. The non-performing portfolio includes loans in default as well as those with a low probability of recovery and is one of the inputs banks use in calculating provisions. For more information, see Box II.1 in IEF first half of 2024.
[4]/ Stress test for firms funded primarily by local banks. Based on Córdova et al. (2021). It has a one-year horizon and assumes the occurrence of three shocks: for economic activity, a severe scenario of falling sales is assumed, consistent with that presented in the banking stress test (Chapter III); for commercial interest rates, a 600-basis-point increase is assumed; and for inflation, a 4-percentage-point increase over one year is assumed. This methodology allows for the calculation of Debt at Risk (DaR), which measures the total debt of firms that are actually in default at the beginning of the exercise, plus that of those that fall into default after the application of the shocks.

REAL ESTATE SECTOR

Residential real estate sector showed an improvement in sales and outlook. Since the last IEF, the sales momentum associated with the FOGAES program and the interest rate subsidy for new homes priced below UF 4,000 has continued. Thus, total sales of new homes remained robust, with an annual increase of 18% in the second half of 2025 and 19% in the first quarter of this year (Figure II.6). Meanwhile, the interest rate on mortgage loans reached 4.1% in March, slightly below its September 2025 level. Other indicators also point to improved prospects for the real estate and construction sectors. Worth singling out among these are: an increase in stock market valuations of real estate and construction firms, as well as a rise in the value of investment projects for the 2026–2029 period, according to the latest survey from the Capital Goods Corporation. In addition, in recent quarters, significant bond issuances have been recorded in the local market, aimed at refinancing liabilities and boosting new projects. For their part, the housing price index (IPV) rose 2% annually in real terms at the fourth quarter of 2025, with a larger increase in the case of new homes (Figure II.7).

Despite improvements in some indicators, the residential real estate sector continues to show signs of weakness. The main vulnerability stems from the high number of completed homes available for sale. As of the first quarter of 2026, the number of units available for occupancy in the Metropolitan Region far exceeded the average between 2011 and 2019 (Figure II.8)[5]/. Firms in the sector have addressed this situation by scaling back their operations, as reflected in the reduction in the floor area authorized for new housing construction. High levels of bank loan defaults have also been observed, exceeding those of the past decade (Figure II.4). In this context, a downward adjustment in housing prices remains a risk factor for the banking sector. However, institutions have risk mitigators in place based on prudential regulations. Looking ahead, the sector's recovery is expected to continue gradually, in line with local macroeconomic and financial development.

In the non-residential sector, vacancy rates remain high in the office leasing segment, against a backdrop of stable investment exposure by institutional investors. For high-end office space (Class A+/A and B), the vacancy rate reached 10% in the first quarter of 2026, higher than it did in the past decade. Meanwhile, rental prices remained similar to those in the previous IEF. Regarding storage units, vacancy rates remained close to 6% at the end of 2025, similar to the pre-pandemic period, and rental prices showed no significant changes. Meanwhile, the exposure of public investment funds and life insurance companies to the real estate sector—which includes exposure to both the residential and non-residential sectors—remained at around 20% and 27% of their assets as of December 2025 and March 2026, respectively[6]/.

HOUSEHOLDS

Households are entering this cycle in a somewhat stronger financial position than that observed in the previous IEF. Net financial wealth reached 122% of GDP in the fourth quarter of 2025, an increase of 2pp from the end of 2024[7]/ (CNSI 2025.IV). Meanwhile, aggregate debt stood at 46% of GDP, a 1-pp reduction from the previous year. In the labor market, real total payroll continued to grow through the first quarter of 2026, although its composition continues to reflect limited job creation. Thus, while unemployment rose to 8.9% in the January-March 2026 moving quarter, real wages grew by about 2.2% annually as of March (INE), with a slight acceleration compared to the previous IEF.

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[5]/ Currently, it would take 19 months to sell off the existing inventory of finished homes, whereas in the 2011-2019 period the average was seven months.

[6]/ The CSV's exposure considers the sum of real estate investments (15.6%) and mortgage bonds and notes (11.8%). It does not include investments made through financial instruments such as mutual funds or stocks (CSV Investments – CMF).

[7]/ This result was largely due to the increase in pension fund balances, driven by investments in foreign equities and the strong performance of local and international stock markets (CNSI 2025.IV).

FIGURE II.6 ***The residential real estate sector saw an improvement in sales.***
SALE OF NEW HOMES: MR (1)
(thousands of units)

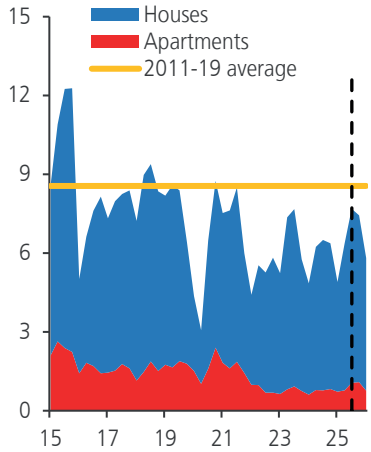


FIGURE II.7 ***New home prices showed a faster pace of growth.***
TOTAL HOUSING PRICE INDEX (IPV)
(1)
(index, 100 = 2015.Q1)

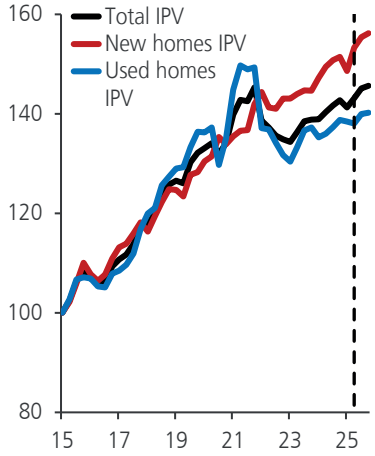
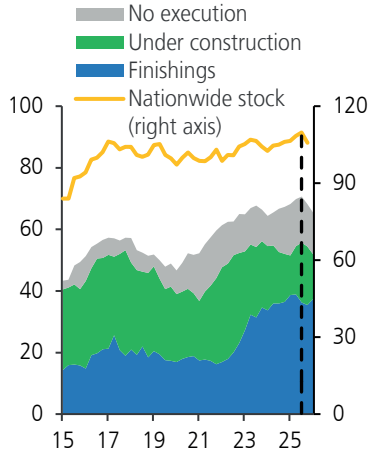


FIGURE II.8 ***The sector's main vulnerability is the high stock of completed homes.***
STOCK OF NEW HOMES FOR SALE
(1)(2)
(thousands of units)



(1) Vertical line marks statistical cutoff date for previous IEF. (2) Colored areas represent the stock in the Metropolitan Region.
Source: Central Bank of Chile based on CMF and SII data.

Household vulnerabilities remained low. Indebtedness and the debt-to-income ratio remained largely unchanged compared to the previous Report (Figure II.9). Total debt held by households with a high financial burden reached 27% as of December 2025, a figure that compares favorably with the 29% reported in the previous IEF and the 30% average reached in 2019 (Figure II.10)[8]/. Among these households, the highest-risk group consists of borrowers with only consumer loans, whose share of total debt fell from an average of 8% in 2019 to 6% in December 2025[9]/. Meanwhile, those with both mortgage and consumer debt accounted for 22% in the last year, mirroring their 2019 level.

Compared to the previous IEF, the delinquency rate (IDI) remained unchanged for consumer loans and showed a moderate increase for mortgage loans. In March 2026, the consumer IDI stood at 10.6%, a figure similar to the previous IEF and in line with the 10.5% average observed between 2016 and 2019, the period prior to the implementation of support policies, which contributed to the overall improvement in the repayment situation. In the case of mortgage loans, the indicator reached 2.8%, slightly higher than in the previous IEF and than in the pre-pandemic period (2.7% between 2016 and 2019). Marginal data indicates that this measure declined after the Report's completion (Figure II.11). By loan types, an increase was recorded for those carrying variable or mixed rates[10]/.

[8]/ Households with a high financial burden, defined as: borrowers without mortgages and with an RCI > 25%, and borrowers with mortgages and an RCI > 50%; this definition is consistent with that used by the CMF.

[9]/ The non-payment index (IDI) for debtors with a high debt burden who have only consumer loans averaged 11% between 2019 and 2025, while for debtors who also have mortgage debt, the consumer IDI averaged 6% over the same period.

[10]/ Between 2020 and 2022, there was an increase in the share of new mortgage loans agreed upon at a mixed or variable rate. While this facilitated access to the mortgage market, these loans could be exposed to an increase in their financial burden when the fixed rate on the loan converts to a variable rate, a situation that was mentioned in the IEF for the first half of 2022.

FIGURE II.9 ***Households' main financial indicators remained unchanged relative to the previous Report…***
FINANCIAL BURDEN AND INDEBTEDNESS (1)
(percent of monthly income; times monthly income; median; 6-month moving average)

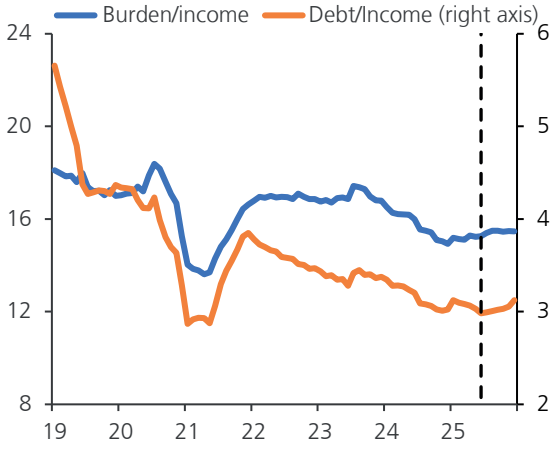


FIGURE II.10 ***…while debt held by households with high financial burdens declined slightly.***
BANK DEBT OF DEBTORS WITH A HIGH FINANCIAL BURDEN-TO-INCOME RATIO (1)(2)
(percent of household bank debt, moving quarterly average)

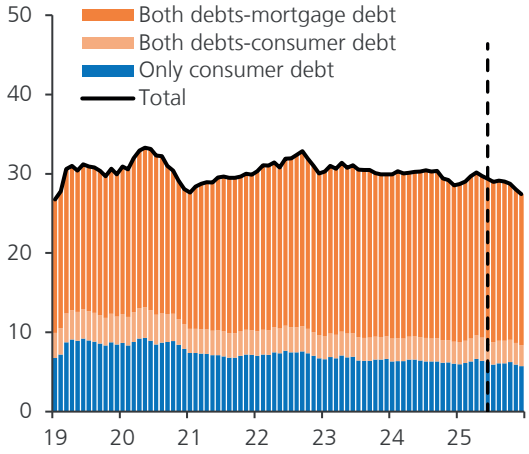


FIGURE II.11 ***Nonperforming consumer and mortgage debt showed no major changes over the past six months.***
UNPAID DEBT INDEX (1)(3)
(percent of debt in each group)

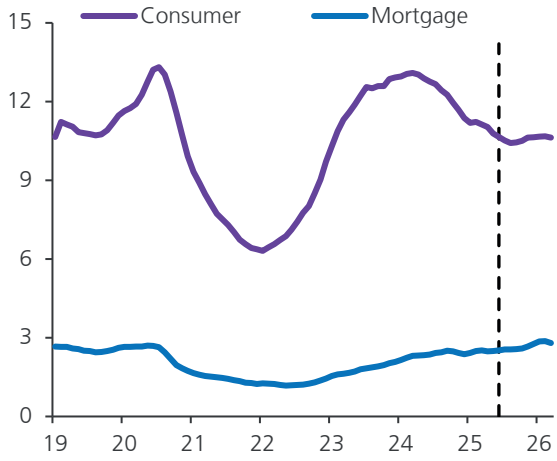
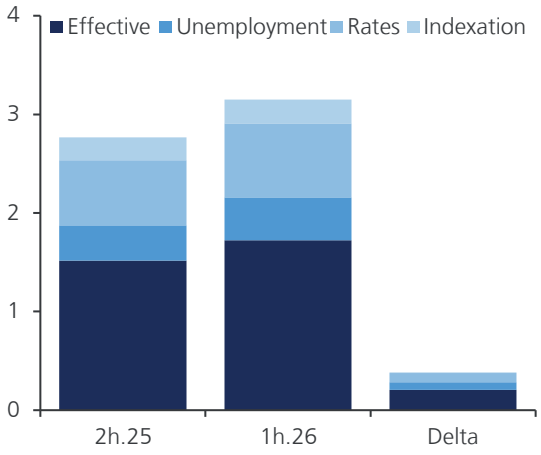


FIGURE II.12 ***Household debt at risk increases mainly because of the slight rise in initial nonpayment.***
DEBT AT RISK (4)
(percent of 2025 GDP)



(1) Vertical line marks statistical cutoff date for previous IEF. (2) Vertical line marks statistical cutoff date of previous IEF. Households with a high debt burden are defined as: debtors without mortgage loans and with a financial burden to income ratio (RCI) (DTI) > 25%, and debtors with mortgage loans and a DTI > 50%. (3) Vertical line marks statistical cutoff date of previous IEF. (4) Debt at risk defined as individual debt times the probability of non-payment by each borrower per portfolio.
Source: Central Bank of Chile based on AFC, CMF, and SuSeSo data.

STRESS TEST FOR HOUSEHOLDS[11]/

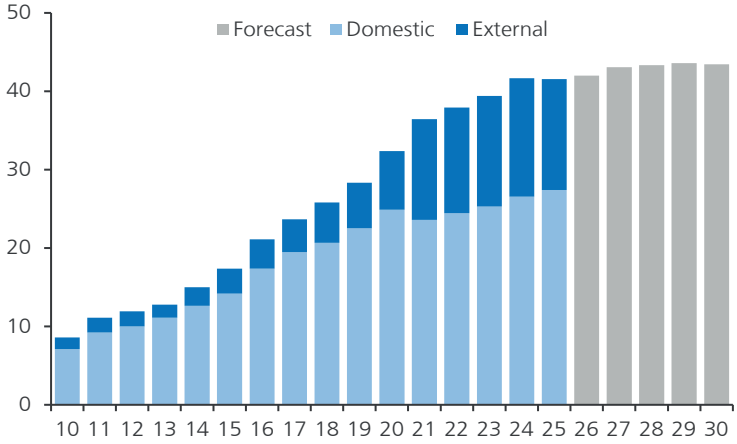
Under stress, households' debt-at-risk increases moderately compared to the previous IEF, mainly due to higher initial defaults. The stress scenario assumes rising unemployment, higher interest rates, and increased inflation, which together reduce labor income and make debt servicing more costly. The magnitude of the shocks is comparable to those our economy has faced during the major crises in the past and captures the movements that could arise from an escalation in the duration or intensity of the conflict in the Middle East. Should such a situation arise, household debt entering default would stand at 3.1% of GDP, higher than reported in the previous test (Figure II.12). This is explained by the somewhat worse initial conditions under which the stress scenario is applied, given the increase in mortgage debt effectively in default in the highest-income quintile. Meanwhile, unemployment and interest rate shocks would have a greater effect on lower-income groups than in the previous exercise. Despite the marginal increase observed, the results of this test do not differ significantly from the estimates recorded in recent years (statistical appendix).

CENTRAL GOVERNMENT

Persistent deficits over several years have driven up public debt and reduced fiscal space. At the end of 2025, the actual deficit reached 2.8% of GDP and the structural deficit 3.6%. Consequently, public debt reached 42.6% of GDP at the end of the first quarter of 2026 (41.7% as of December 2025; Figure II.13). Persistent deficits could put pressure on the central government's gross debt in the coming years. Prudent management of fiscal accounts is essential to preserve adequate financing conditions for households and businesses and to ensure the economy's ability to mitigate the impact of shocks.

The duration of public debt issuances has shortened, increasing exposure to changes in financial conditions. As of December 2025, 37% of the central government's debt was set to mature within the next five years, compared to a year ago when only 29% of the debt was due within that timeframe. This implies that the frequency with which the government must turn to the market to roll over debt is increasing, leaving the government more exposed to changes in financial conditions. Meanwhile, 34% of total debt is denominated in foreign currency (Quarterly Report on Central Government Gross Debt, December 2025).

FIGURE II.13 ***Persistent deficits have increased public debt.***
CENTRAL GOVERNMENT GROSS DEBT (*)
(percentage of GDP)



(*) Gray bars show forecast in Public Finances Report for the fourth quarter of 2025, by Finance Minisry's budget office, DIPRES.
Source: Central Bank of Chile based on DIPRES data.

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

BOX II.1:

Geopolitical risks, external financing, and banking rates

Geopolitical tensions are a significant source of financial risk, particularly for emerging economies. In a highly fragmented geopolitical environment, global shocks can spread to economies highly integrated in international financial activity, amplifying local vulnerabilities and altering banking behavior (IEF, second half of 2025; Reinhardt et al., 2025).

The Chilean banking system has increased its exposure to international financing over the past decade, with limited currency mismatches. Against a backdrop of greater diversification of sources and counterparties, the local banking sector's external debt rose from accounting for about 6% of its liabilities in 2008 to roughly 8% today. While more than a decade ago this financing was concentrated in loans granted by international banks, today more than 50% comes from bond issuances abroad. Meanwhile, the share of foreign currency loans in the banking system's commercial portfolio was nearly 36%[1]/, while in 2019 it stood at 32%. Around half of these loans were used to finance exports, with relatively short maturities (11 months), structured almost entirely at fixed rates[2]/. Although these characteristics reduce certain interest rate risks in a context of limited currency mismatches, the significant exposure to foreign currency and its connection to international trade flows can amplify the transmission of geopolitical shocks to local financial conditions.

International evidence shows that an increase in geopolitical tensions typically leads to higher costs of foreign currency financing—primarily through higher risk premiums and funding costs—as well as a contraction in cross-border credit volumes, with varying effects across institutions. While much of the movement in external interest rates reflects the global monetary cycle, an increase in geopolitical uncertainty (measured by the Geopolitical Risk Index, GPR, based on Caldara and Iacoviello, 2022) tends to raise the risk premiums demanded by global investors and creditors, increasing the funding costs of international banks and reducing cross-border credit flows to emerging economies (Niepmann and Sheng, 2025). For small, open economies such as Chile, which rely heavily on external financing, the operation of this transmission channel for global geopolitical shocks can lead to tighter financial conditions. The magnitude of this transmission varies across financial institutions and depends on the individual characteristics of local banks, such as their size, liquidity, or capital buffers[3]/, among others.

[1]/ Market share based on the flow of new installment loans and foreign trade loans (COMEX) denominated in foreign currency. Meanwhile, the market share in terms of outstanding balances is roughly 18%.

[2]/ Nominal interest rate in foreign currency. Of the total foreign-currency loans, approximately 98% are loans granted in US dollars.

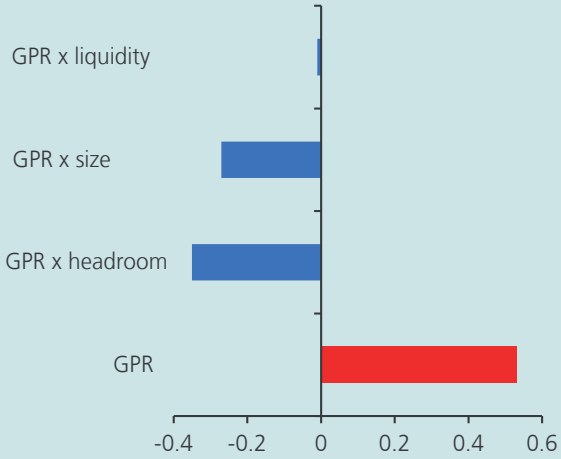
[3]/ Capital buffers are defined as the difference between the Common Equity Tier 1 (CET1) capital level and regulatory minimums, including the conservation buffer and the countercyclical capital buffer CCyB.

An empirical study for Chile suggests that the impact of heightened geopolitical risks on foreign currency lending rates would be limited and that its magnitude depends on individual bank characteristics. Unlike the international literature, which has focused on funding costs and credit volumes, this analysis focuses on the pass-through of geopolitical uncertainty to the interest rates charged by local banks on commercial loans in foreign currency. Using exogenous variations in the GPR as a proxy for global risks (Figure II.14), the results indicate that increases in geopolitical uncertainty translate into higher interest rates charged by banks. However, larger banks and capital buffers manage to mitigate this pass-through. In fact, a one-standard-deviation increase in the index[4]/ is associated with an increase of nearly 0.2 pp in the foreign currency commercial rate[5]/; /however, on average, banks with greater capital buffers would increase their rate by only 0.07 pp, while larger banks would increase it by 0.1 pp (Figure II.15). These findings highlight the importance of the banking system's structure and soundness as mitigators of external risks, and particularly its role in the spillover of geopolitical risks to the real economy.

FIGURE II.14 ***Recent developments have raised geopolitical risk above its historical average.***
GEOPOLITICAL RISK (GPR)
(index, monthly frequency)

Source: Central Bank of Chile based on information from Caldera and Iacoviello (2022).

FIGURE II.15 ***Geopolitical risks would have limited effects on foreign currency interest rates.***
INTEREST RATE PASS-THROUGH COEFFICIENTS (*)
(associated betas)



(*) Sample covers the period from January 2011 to December 2025. The estimate decomposes the commercial interest rate into components related to geopolitical risk and bank-specific characteristics (i.e., size, liquidity, and capital buffers), controlling for firm- and bank-level fixed effects. Number of observations: 1,044,301. Adjusted R^2: 0.7. Parameters significant at the 1% level, with the exception of liquidity interacted with GPR. For details, see the associated technical note.
Source: Central Bank of Chile.

[4]/ This corresponds to a value of 48 for the sample period from January 1995 to April 2026. Following the outbreak of war in Iran, this index rose from 111 to 500 in two days, later converging to its historical average by the end of April (127).

[5]/ Based on a sample covering the period from January 2011 to December 2025, the monthly standard deviation of the commercial interest rate in foreign currency is 1.7pp.

III. LENDERS

Bank lending has shown signs of greater dynamism, in line with the trend in demand. The banking system remains in a solid financial position, with sufficient loan loss provisions and collateral, profitability above historical averages, and liquidity exceeding regulatory requirements. Thus, stress tests show that, even in the loan loss provisions of a sharp contraction in economic activity and higher funding costs, banks would maintain their capital levels above regulatory requirements under the CET1 metric.

LENDERS' SITUATION

Growth in bank lending shows incipient signs of recovery, while credit supply conditions remain stable. According to our Bank Lending Survey (BLS), banks have not significantly changed their credit-granting standards. Interest rates on loans to firms and households have followed benchmark rates and maintained stable spreads, while loan term have been lengthened since the previous IEF.

Loans to the corporate sector registered annual real growth of 1.6% in March (Figure III.1). The slower growth observed between November 2025 and February 2026 was driven by the appreciation of the peso against the US dollar during that period. Without this effect, the commercial loan portfolio, excluding foreign trade loans, would have maintained a positive real growth rate for the past nine months (Figure III.2). Data from the Bank Lending Survey, Business Sentiment Reports, market intelligence, and our own estimates all indicate that the current credit cycle is primarily driven by demand factors and is in line with macroeconomic fundamentals (Figure III.3).

Household credit continues to expand, with its growth rate accelerating compared to the previous IEF (Figure III.4). Worth noting is the upward trend in the bank consumer loan portfolio, which recorded a real annual growth rate of 4.8% as of the date of this Report. More than half of this growth is attributable to credit card loans, primarily associated with credit support companies (SAG). Additionally, non-bank credit providers(NBCP)[1]/ in this segment have also shown increased activity at the end of 2025, recording real annual growth of 7.7%, due to the greater expansion in loans from family allowance clearing houses (CCAF) since December 2024, followed by savings & loans cooperatives. Meanwhile, the stock of housing loans has grown by an average of 1.6% since the previous IEF, supported by new transaction flows under the FOGAES program to support the purchase of new houses (Chapter II).

[1]/ These entities include department stores, family allowance and clearing houses, savings & loans cooperatives, and car financing entities.

FIGURE III.1 ***Credit activity shows signs of dynamism.***
BANK LENDING GROWTH (1)(2)
(real annual change, percent)

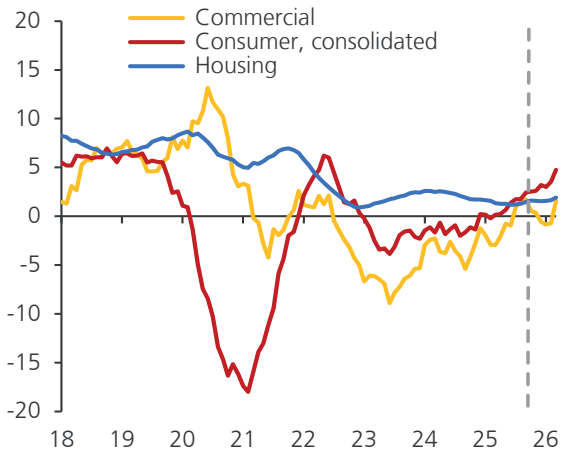


FIGURE III.2 ***Commercial loans grow after adjusting for exchange rate effects.***
CONTRIBUTION TO COMMERCIAL LENDING GROWTH (1)(3)
(real annual change, percent)

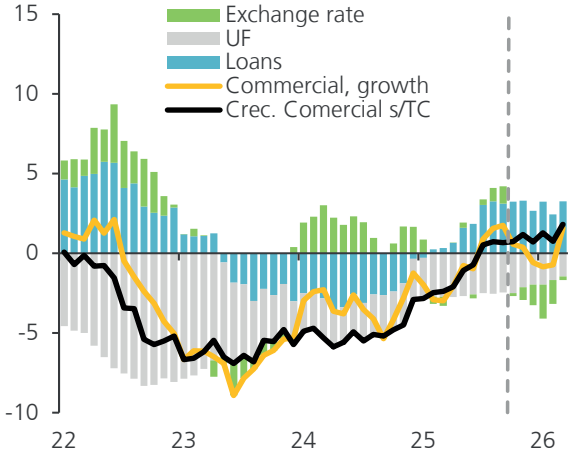


FIGURE III.3 ***Banks perceive lower credit demand from firms.***
DRIVERS OF FIRMS' CREDIT DEMAND (1)(4)
(index)

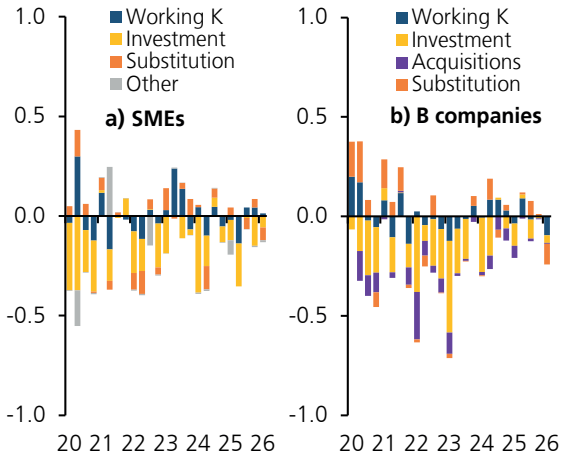
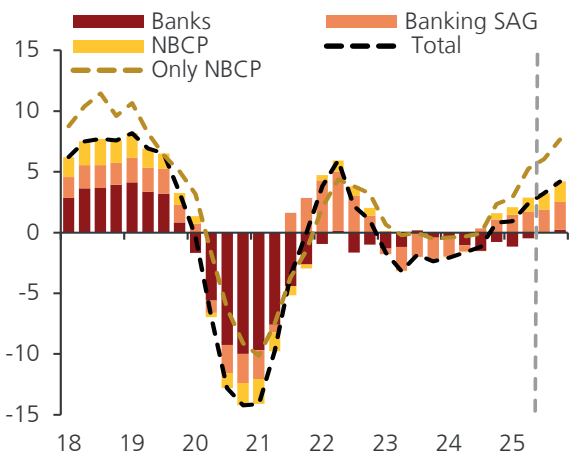


FIGURE III.4 ***Consumer credit growth comes from SAGs and NBCP.***
CONTRIBUTION TO CONSUMER GROWTH (1)(5)
(annual percent)



(1) The vertical line marks the previous IEF's statistical cutoff. (2) Based on individual financial statements, except for the total and local consolidated consumption, which includes loans from business support companies. (3) Based on the methodology described in Box III.1, IEF 2h.18. (4) The index reflects the net value of responses weighted by the bank's share of the commercial portfolio. Negative (positive) values indicate greater weakness (strength) compared to the previous survey. Regarding the causes, working capital refers to customers' needs for this concept, investment refers to funding requirements for said purpose, acquisitions includes customer financing for acquisitions or mergers with other firms, and substitution means financing by other banks or non-bank sources (bonds, commercial papers, own funds). (5) (*) SAG: business support companies. SAG loans are consolidated with the banks. Adjusted by SAG incorporation in December 2018 (CMR to Falabella and Walmart Financial Services to BCI). Quarterly data.
Source: Central Bank of Chile based on CMF data.

Delinquency indicators remain stable, while loan loss expenses for new loans have recently declined, signaling that the banking system sees lower risk going forward. The delinquency rate for the commercial loan portfolio has not changed significantly since the last Report, remaining above its historical average, while there has been a decrease in provisioning, which is based on banks' expected credit risk losses (Figure III.5 and statistical appendix). This is consistent with an improvement in the forward-looking risk perception regarding recently granted commercial loans. In the retail loan portfolio, there was no statistical difference in delinquency compared with the last IEF.

Banks' funding conditions remain stable. This is due to the growing importance of funding from stable sources such as retail deposits, a trend that has been observed since the pandemic. Interest paid on liabilities is aligned with the MPR trajectory, while there is greater dynamism in local bond issuances, with somewhat narrower spreads than in the November IEF (Chapter I). Thus, interest margins have remained largely unchanged at around 2.6% of assets, similar to those observed prior to the Covid-19 crisis (Figure III.6).

The banks' profitability is still above its historical average, which has allowed for higher dividend payouts. The banking system's return on assets (ROA) stands at 1.23%, slightly lower than the 1.32% recorded in the previous IEF, but still above its average since 2010. In this context, banks have announced dividend payout levels above the average for the past decade and have shown stock market returns outperforming other economic sectors. Meanwhile, the ROE has stabilized at its long-term average, with slight fluctuations associated with the end of the implementation of Basel III (Figure III.7).

Banks maintain adequate levels of liquidity and capital to continue to grant loans without current capital buffers posing a significant constraint. The banking system's capital position has continued to strengthen since the last Report. Thus, the increase in the system's capital ratios offset the rise in actual requirements in December of last year (Figure III.8). This allowed for an expansion of the CET1 and capital adequacy ratios (CAR) buffers, which stood at 3.2% and 5%, respectively, as of February. This improved position would enable the banking sector to withstand scenarios of increased credit demand while maintaining buffers with respect to regulatory requirements.

If the risk of an abrupt tightening of global financial conditions were to materialize, it would raise banks' funding costs and could slow credit growth. This scenario would increase financing costs for economic agents, including banks, depreciate the currency, and restrict access to capital markets. Higher funding costs, especially for long-term funding, would affect the banks' ability to roll over their maturing bonds, spilling over into lending conditions. Furthermore, it could trigger abrupt corrections in asset prices, affecting the performance of their trading book. The stress tests reported below indicate that the banking system is well prepared to face a shock of this kind.

FIGURE III.5 ***Delinquency indicators are at levels similar to those in the previous Report.***
BANKING SYSTEM'S DELINQUENCY RATE (1)(2)
(percent of each portfolio's loans)

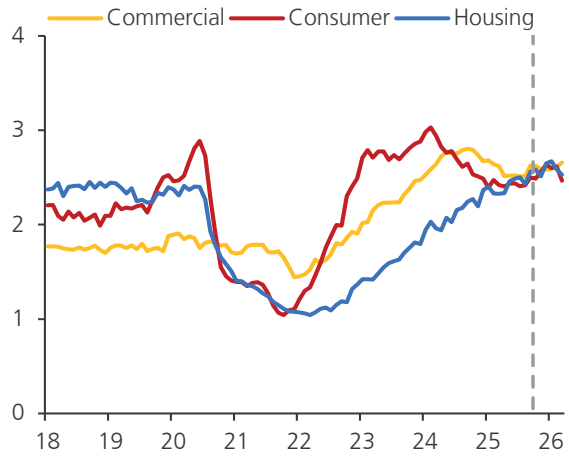


FIGURE III.6 ***Interest margins remain stable.***
BANKING SYSTEM'S INTEREST MARGIN (1)
(percent of assets)

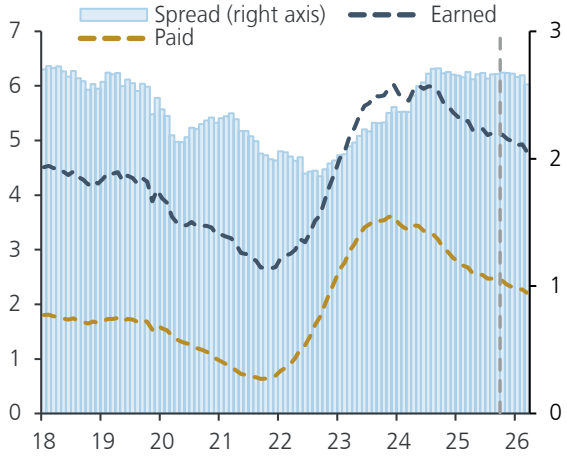


FIGURE III.7 ***Profitability stands above its historical average.***
BANKING SYSTEM'S PROFITABILITY (1)(3)
(percent)

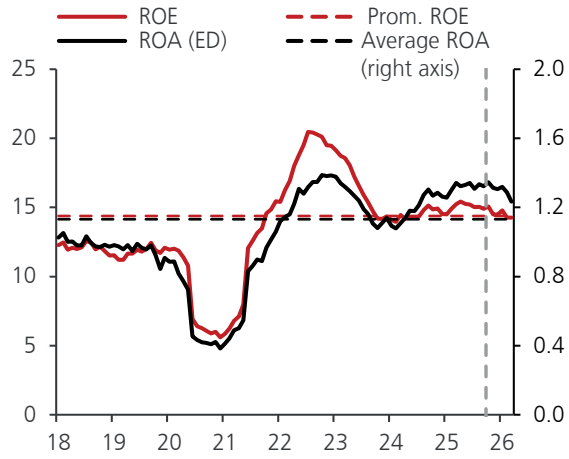
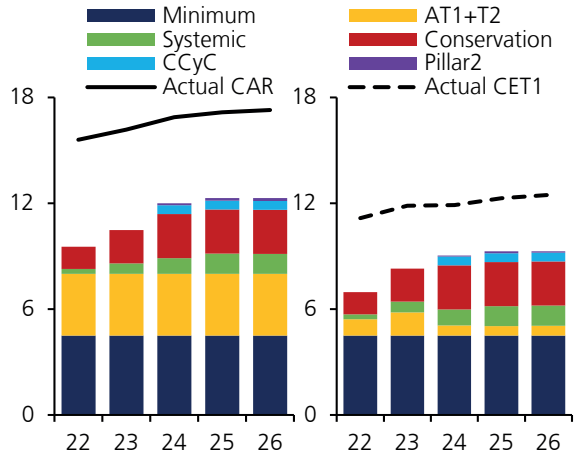


FIGURE III.8 ***The capital position allows banks to face greater credit demand.***
BANKING SYSTEM'S CAPITAL REQUIREMENTS (1)(4)
(percent of risk-weighted assets)



(1) Delinquency refers to payments that are 90 days or more past due. Information based on locally consolidated financial statements. Vertical line marks previous IEF's statistical cutoff. (2) Vertical line marks previous IEF's statistical cutoff. (3) Averages calculated from 2010 to date, respectively. Vertical line marks previous IEF's statistical cutoff. (4) Information as of December of each year except for 2026, which reflects actual data as of February 2026. Requirement figures as of December 2025 include 100% of capital discounts and the application of the systemic charge.
Source: Central Bank of Chile based on CMF data.

EVALUATION OF BANK STRESS SCENARIOS[2]/

Banks have sufficient liquidity and capital levels to remain solvent in a severe stress scenario. The stress test assumes a scenario of sharp economic contraction, accompanied by an increase in banks' funding costs, a drop in domestic demand, and a deterioration of financial conditions (statistical appendix). The simulation is based on the banks' December 2025 financial statements and uses shocks comparable to those in the previous exercise. It assumes an impact of 200 basis points on long-term interest rates and 300 bp on short-term rates. It also assumes an increase in exchange rate volatility to 16%, and a 30% depreciation of the Chilean peso, which is higher than the rate assumed in the previous IEF (20%), to account for the greater volatility recently shown by international markets.

The impact of market risks remains contained and similar to that described in the previous IEF. Losses from currency risk are close to those of the previous exercise, consistent with currency mismatches that have not changed. The same applies to maturity mismatches in the banking book and the term structure of the trading book, which keeps the banking sector's exposure to repricing and valuation risk stable (Figure III.9). Thus, losses due to interest rate shocks show no substantial changes, standing at 1.4%.

Credit-risk losses fell slightly with respect to the year before, despite similar exposure to this factor. Credit risk exposure relative to capital has remained largely unchanged from the previous result. However, provisioning expenses have decreased annually, which would reflect an improvement in portfolio quality, reducing potential losses for banks. Overall, it is estimated that the capital loss due to credit risk under the stress scenario would amount to 13.9% of capital, slightly lower than the loss in the previous year (14.6%) (Figure III.9).

The results indicate that banks would maintain total capital buffers in a severe stress scenario. Initial capital, as measured by the capital adequacy ratio (CAR), shows an improvement over the previous assessment and stands at a buffer of 4.8 pp above the minimum requirements and the conservation buffer. Meanwhile, capital destruction resulting from the stress scenario—equivalent to the difference between initial and final capital—reaches 2.4 pp (Figure III.10). Thus, the stress tests show that the current capital level allows banks to withstand stressful scenarios without compromising their solvency position. These results consider the full implementation of the final phase of Basel III capital requirements.

Likewise, the banking system retains its ability to absorb losses resulting from severe shocks under the most stringent CET1 metric. In the stress scenario, the banking system would lose 2.3 pp of CET1, similar to the previous result. Thus, due to the higher initial CET1 level, the available buffer following the materialization of the stress scenario increases compared to the last IEF (Figure III.11). Therefore, even after applying the stress scenario shocks, the banking sector would still exceed the minimum regulatory requirements, considering a release of the CCyB and the use of the conservation buffer, both of which are intended to be used in such circumstances.

The banking industry has sufficient liquidity to withstand an extreme scenario. Liquidity stress tests are based on the availability of liquid assets to cover 30-day net stressed outflows, as reflected in the LCR metric. The results indicate that the banking system has sufficient buffers to absorb deposit outflows exceeding regulatory limits, a sharp depreciation of the currency, and interest rate shocks, which would erode the value of its assets.

[2]/ Based on the methodology described in the IEF of the second half of 2013 and Martínez et al. (2017). Both the analysis and its results are routinely reported to the CMF. Given their nature, they should not be construed as forecasting exercises.

FIGURE III.9 ***9 Lower risk-related losses compared with previous exercises.***
CREDIT AND MARKET RISKS OF THE SYSTEM (1)
(percent of capital)

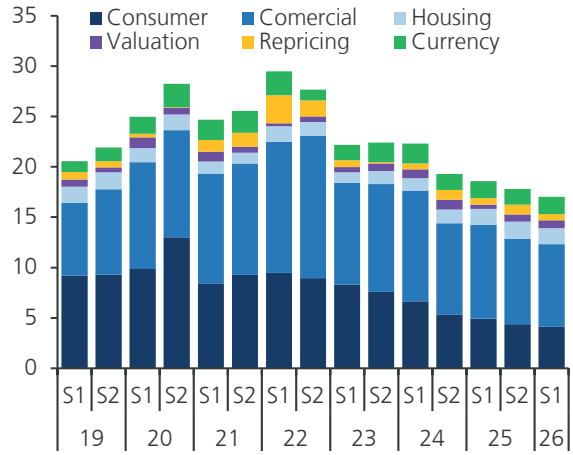


FIGURE III.10 ***Capital destruction under stress remains stable.***
IMPACT OF THE STRESS SCENARIO ON THE CAPITAL ADEQUACY RATIO (2)
(percent of risk-weighted assets)

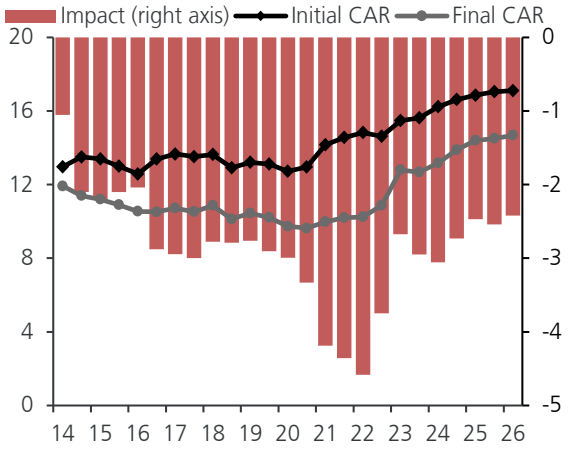
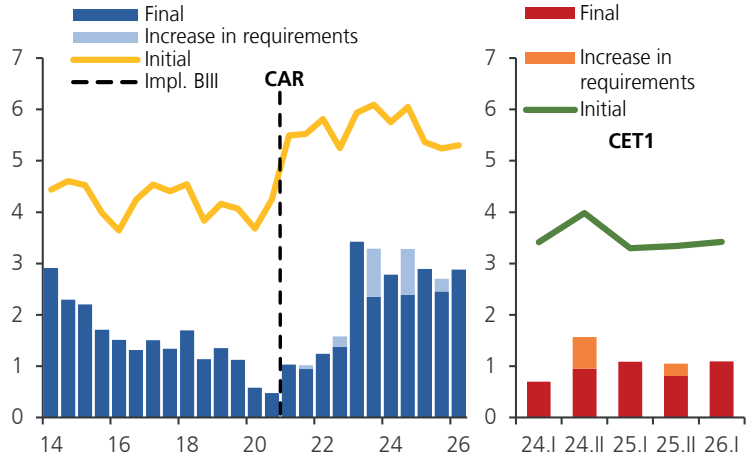


FIGURE III.11 ***The banking system maintains the capacity to absorb losses under a stress scenario, with buffers above regulatory requirements.***
CAPITAL HEADROOM UNDER THE STRESS SCENARIO (3)
(percent of risk-weighted assets)



(1) As from 2021 consumer SAGs are considered in credit risk. (2) Considers profit reinvestment. (3) Excess of effective net worth (CAR) and Common Equity Tier 1 (CET1) capital over the regulatory minimum and buffers, respectively. Does not include the CCyB in the stress scenario. Takes into account each bank's specific limits. Dotted vertical line indicates the start of the Basel III implementation timeline. For the IEF exercises in the second half of 2021, 2022, 2023, 2024, and 2025, the red bar shows the final buffer with the limits in effect as of December of each year, in accordance with the Basel III phased implementation schedule, while the orange bar uses the limits in effect as of June. The results starting in 2026 include the full implementation of the final phase of the new Basel III capital requirements.
Source: Central Bank of Chile based on CMF data.

IV. FINANCIAL POLICY DEVELOPMENTS

At its Financial Policy Meeting (FPM), the Board of the Central Bank of Chile decided to continue the convergence of the Countercyclical Capital Buffer (CCyB) toward its neutral level, setting it at 1% of risk-weighted assets (RWAs) from the current 0.5% over a 24-month period. This decision was based on the information evaluated in the FPM and contained in this Report. In accordance with the policy framework announced in November 2024, the Board will continue to regularly assess macro-financial conditions, the risk environment, and their potential implications for the CCyB. The BCCh's financial regulation agenda has focused this half year on initiatives to strengthen liquidity management, among other areas, and finalized the issuance of the regulatory framework for repos. Likewise, with the aim of promoting the efficient and secure development of the payment system, progress is being made on regulations to expand access to the real-time gross settlement (RTGS) system and for the use of cards in the public transportation system, as well as on the implementation of the pension reform.

MACRO-PRUDENTIAL BANK CAPITAL REQUIREMENTS

The implementation of macroprudential capital buffers for banks is intended to contain systemic risks and safeguard the resilience of the financial system. The decisions that the BCCh is responsible for making in this area consider the macro-financial environment and the evolution of systemic risks within its purview, both to establish the CCyB and to provide the Financial Market Commission (CMF) with a preliminary report on the designation and corresponding capital charges for systemic banks.

The Countercyclical Capital Buffer (CCyB)

At the Financial Policy Meeting (FPM) for the first half of 2026, the Board of the Central Bank of Chile decided to continue the convergence of the CCyB from the current 0.5% of the risk-weighted assets (RWAs) to its neutral level of 1% over a 24-month period. This decision is supported by a prior favorable report from the CMF. As has been communicated since the publication of the updated CCyB policy framework in November 2024, beginning with the first FPM of 2026, the Board would evaluate the continuation of convergence toward the neutral level (NCCyB)[1]/ of 1% for RWAs, to the extent that macro-financial conditions so permitted, and considering a timeframe of at least one year for its implementation (Box IV.1).

[1]/ According to the CCyB implementation framework, the neutral CCyB is designed "to prevail for most of the time, as long as risk conditions for the financial system remain at a standard level and no significant changes are anticipated, assuming systemic risk conditions remain normal and no significant macro-financial imbalances or structural shifts are foreseen."

According to the analysis presented in this Report, Chile's macro-financial conditions are consistent with the CCyB converging toward its neutral level. Local financial markets have operated normally, in line with the dynamics observed in external markets, whose financial conditions have tended to align themselves with more favorable outlooks, despite the ongoing conflict in the Middle East (Chapter I). Likewise, local indicators of financial vulnerabilities for households and firms remain low from a historical perspective (Chapter II). Lending activity has shown signs of greater dynamism, and its outlook remains determined by demand factors. The banking system shows profitability indicators around their historical averages, stable funding sources, and capital buffers that would allow it not only to withstand a stressed scenario (Chapter III) but also to accommodate the convergence of the CCyB while maintaining a flow of credit consistent with the economy's evolution. Accordingly, the available data suggest that macro-financial conditions are consistent with the convergence of the CCyB from its current level of 0.5% to its neutral level of 1%. The 24-month transition period for the new requirement to take effect gives banks flexibility to implement the CCyB adjusting to their particular situation.

The Board estimates that the current risk environment underscores the importance of having a capital buffer available for release. Setting the CCyB at its neutral level enhances the system's ability to withstand shocks, and releasing it in the event of severe financial stress would help mitigate its impact on the supply of credit to households and businesses.

Systemic capital buffer

The CMF, with the BCCh's preliminary report, annually designates banks that qualify as systemically important and sets the corresponding capital charges. These capital charges enhance the banks' solvency, reducing the likelihood and impact of an event of severe financial stress. By requiring systemically important institutions to maintain higher capital levels, the likelihood of financial hardship is reduced by increasing their resilience, limiting excessive leverage, and encouraging better risk management. At the same time, having larger capital buffers reduces the impact of a stress event by preventing losses from rippling through the financial system. Thus, these requirements contribute to the stability of the financial system at large.

The capital charges set for 2026 were set between 1.0% and 1.5% of RWAs for six banks identified as systemic, and they will have full effect at the end of the year (CMF, 2026). Since the methodology was implemented in 2021, the same six entities have been consistently classified as systemically important, reflecting the persistence of their structural characteristics and their relevance to the stability of the financial system. Regarding the defined charges, there have been some changes in relative position among institutions, which explains the increase determined for Banco Estado in this latest assessment, from 1.25% to 1.5%.

The effective charges set by the CMF fall within the mid-range of a sample of benchmark countries. The potential range for the systemic charge in Chile is relatively wide compared to other jurisdictions, with a minimum of 1% and a maximum of 3.5% of RWAs. However, the current effective charge for banks classified as systemic in Chile is around the midpoint of the effective range observed in the sample (Figure IV.1). It should be noted that, in certain countries, the charges applicable to systemic banks are structured as buffers, whose adjustment responds to the business cycle and macro-financial conditions[2]/.

Defining risk-weighted assets

Given that all capital requirements are set based on the RWAs, choosing which methodology to use in determining them becomes relevant. Variations in these methodologies can affect capital requirements, with implications for the system's resilience. In this context, defining and updating these methodologies extends beyond the micro-prudential sphere and involves financial stability considerations that warrant the corresponding regulations, issued by the CMF, requiring the prior favorable report from the BCCh.

The CMF is currently amending the methodology for calculating the RWAs for market risks (MRWAs) to allow for the use of advanced methodologies. In Chile, MRWAs are determined using the Simplified Standardized Approach (SSA) under the Basel framework (BCBS, 2023). The CMF's proposal, which amends Chapter 21-7 of its Updated Compilation of Standards (RAN), proposes greater flexibility in defining MRWAs to better align with the market risk profile of the Chilean banking industry and boost the degree of convergence with the advanced methodologies of Basel III.

The CMF is also making changes to the methodology for defining credit-risk-weighted assets (CRWAs) to facilitate the adoption of internal models by banks. These models, introduced under Basel II, allow banks to estimate key credit risk parameters and, subject to supervisory approval, replace standard approaches based on fixed weightings. Internal models are aimed at better aligning capital charges with the idiosyncratic risk of each individual bank, encouraging sound risk management and efficient capital allocation. However, experience gained before the 2008 Global Financial Crisis revealed significant heterogeneity in results and supervisory challenges, which led Basel III to strengthen the standard approach and incorporate safeguards, such as the requirement to establish a maximum difference between the requirement derived from the internal model and the standard model ("output floor") (Buch, 2025). Locally, the CMF's Basel III standard implementation incorporated a regulatory channel for banks to request the supervisor's authorization to use internal models for calculating RWAs, through Chapter 21-6 of the updated compilation of norms (RAN), which also defines the standard that such models must meet. At present, no bank uses internal models for the purposes of regulatory capital requirements for credit risk. In this context, the CMF has indicated that its regulatory agenda includes a review of these regulations.

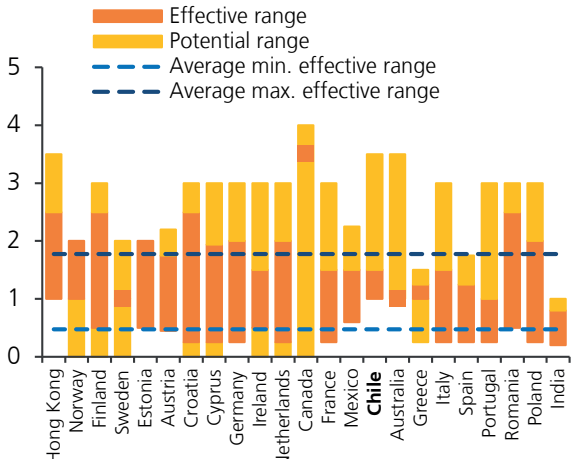
[2]/ In Canada, the Domestic Stability Buffer (DSB) serves as a capital buffer applicable exclusively to systemic banks; its design combines elements of the countercyclical capital buffer and the domestic systemic importance surcharge. The level of the DSB is adjusted periodically by the supervisory authority based on macroeconomic, financial, and cyclical conditions.

MICRO-PRUDENTIAL BANK CAPITAL REQUIREMENTS (PILLAR 2)

Pillar 2 of the Basel framework strengthens the micro-prudential approach by enabling a comprehensive supervisory assessment of each bank's capital adequacy. Pillar 2 consists of the supervisor's comprehensive assessment of the bank's risk management process, and, depending on its results, the supervisor may impose management or additional capital requirements. Thus, this pillar can complement the minimum capital requirements associated with credit, market, and operating risk by considering material risks that may not be fully captured by standard regulatory approaches, as well as qualitative factors related to governance, internal controls, and capital planning[3]/.

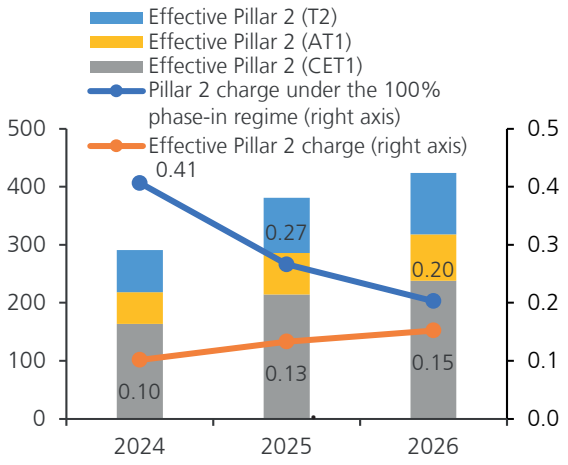
As a result of its latest supervisory review, the CMF set Pillar 2 capital charges for nine banks, equivalent to 0.2% of the system's risk-weighted assets. Both the level of the charges and the number of banks subject to the Pillar 2 requirement have decreased in recent periods, reflecting the adjustments made by the institutions to their risk profiles and levels. The application of Pillar 2 capital charges to the local banking system envisages that 75% of the total requirement determined for each institution will be reached by July 2026, to be met through a combination of Common Equity Tier 1 (CET1) capital, Additional Tier 1 (AT1) capital, and Tier 2 (T2) capital (Figure IV.2). For said period, the percentage of risk-weighted assets that must be covered by basic capital at the system level is approximately 0.09% of total risk-weighted assets.

FIGURE IV.1 ***Chile's effective systemic capital requirement is at an intermediate level from a comparative perspective.***
POTENTIAL AND EFFECTIVE SURCHARGE FOR SYSTEMIC BANKS IN SELECTED JURISDICTIONS (*)
(percent of RWAs)



(*) Systemic Risk Buffer (SyRB) charges implemented in certain European jurisdictions are not considered.
Source: Central Bank of Chile based on information from the BIS, ECB and selected jurisdictions.

FIGURE IV.2 ***Pillar 2 charges decline, reflecting banks' risk management. However, the effective charge is increasing due to its gradual implementation.***
EVOLUTION OF PILLAR 2 REQUIREMENTS AND THEIR COMPOSITION (*)
(billions of pesos; percent of RWAs)



(*) Bars in billions of pesos are read on the left axis; lines in percentage of RWA are read on the right axis.
Source: Central Bank of Chile based on information from the CMF.

[3]/ "The application of Pillar 2 stems from the interaction between the internal effective capital assessment process and the supervisory review and evaluation process, allowing for additional capital requirements or other specific prudential measures. This flexibility allows regulatory requirements to be tailored to each institution's risk profile, business model, and complexity, strengthening loss-absorption capacity at the individual level and helping to mitigate idiosyncratic vulnerabilities before they materialize" (BCBS, 2019).

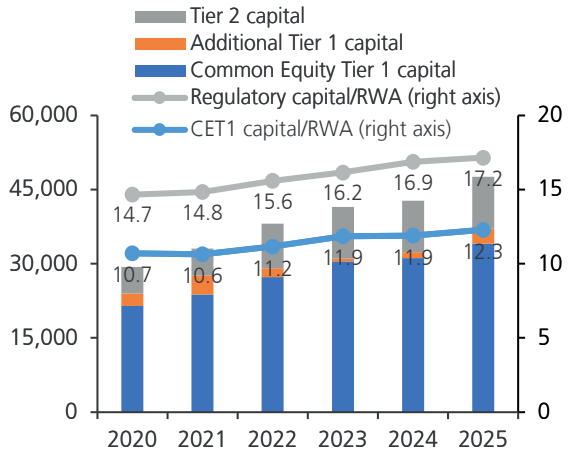
AGGREGATE BANK SOLVENCY REQUIREMENTS

The aggregate capital requirement arises from the consolidation of the variable and fixed components discussed above. In this context, the Basel standards serve as the primary international benchmark, establishing a common framework that defines both the minimum level and the quality of capital that banks must maintain, thereby contributing to the resilience of individual banking institutions and to comparability across jurisdictions.

In December 2025, 100% deductions from regulatory capital took effect, with varying impacts across institutions. The varying effects at the institutional level are explained by differences in holdings of assets subject to deduction, such as intangibles and deferred tax assets dependent on future earnings, which have a direct impact on regulatory capital ratios and individual capital buffers. At the system level, both the ratio of CET1 over total risk-weighted assets (TRWA) and the effective capital ratio to TRWA have shown an upward trend, with common equity remaining the main component of banks' effective capital (Figure IV.3).

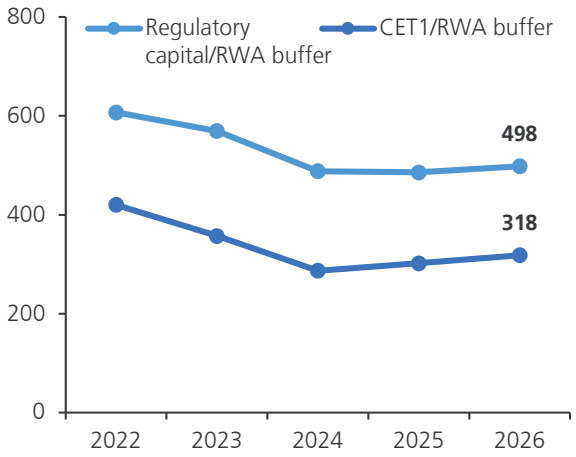
Bank capital buffers—as reflected in the CET1 and actual net worth (CAR) ratios—have stabilized following a period of decline associated with the implementation phase of Basel III. This trend indicates that the requirements of the Basel standard have now been largely internalized by local banks, following an adjustment to their required capital levels associated with its implementation. Thus, the main capital ratios have shown a more stable trajectory in the most recent period (2026) (Figure IV.4).

FIGURE IV.3 ***Banks' regulatory capital shows an upward trend, as do the respective solvency ratios.***
EVOLUTION OF BANKS' REGULATORY CAPITAL AND ITS RATIOS (*)
(billions of pesos; percent of RWAs)



(*) Bars in billions of pesos are read on the left axis; lines in percentage of RWA are read on the right axis.
Source: Central Bank of Chile based on information from the CMF.

FIGURE IV.4 ***CET1 and effective equity buffers have remained relatively stable following the implementation of the main Basel III components.***
EVOLUTION OF CET1 AND EFFECTIVE EQUITY BUFFERS IN THE BANKING SYSTEM (*)
(basis points)



(*) Information as of December of each year, except for 2026, which considers actual data as of February of that year.
Source: Central Bank of Chile based on information from the CMF.

THE REGULATORY AGENDA OF THE BCCH AND OTHER DEVELOPMENTS

Strengthening the money market and systemic liquidity management

In December 2025, the BCCh issued its regulation on the recognition of framework agreements for the execution of repo transactions and the clearing of such contracts. Said regulation recognizes a set of framework agreements that are widely known and used internationally and imposes a two-business-day suspension on the application of early termination and close-out netting clauses in specific cases related to situations of counterparties' financial instability. In addition, the current regulation provides an open review channel, enabling the recognition of other framework agreements that the private sector develops and submits to the BCCh for these purposes.

With this new repo regulation issued by the Bank, another step has been taken toward achieving the goal of strengthening the functioning of the money market. In July 2024, the BCCh published regulations to enable the issuance of retained securitizations, or self-securitizations, which allow banks to acquire securitized bonds that incorporate instruments from their own portfolios as underlying assets. The objective of this initiative is to contribute to the banking system's liquidity management by expanding the range of instruments eligible as collateral. In particular, subject to the conditions and requirements established in the regulation, these bonds may serve as collateral in transactions with the BCCh and with other financial institutions.

Upon a prior favorable report from the BCCh, in April 2026 the CMF refined the regulatory treatment of capital requirements applicable to self-securitized instruments and repos, strengthening the consistency between prudential capital regulation and liquidity management objectives. The issuance of retained securitizations was discouraged by the prudential capital treatment, given that exposures associated with this type of instrument were subject to a credit risk weight of 1,250%. The CMF made the treatment of these transactions more flexible, acknowledging the nature of the exposure and allowing for a charge proportional to the effective risk. When there is no actual transfer of risk, the risk weights associated with the underlying assets are applied directly. Also, under certain conditions, the CMF reduced the credit risk weights applicable to repos entered into under a framework agreement recognized by the BCCh to 10%; and to 0% if additional conditions are met, or the transactions are cleared and settled through a Central Counterparty (CCP) recognized by the CMF.

In January of this year, the BCCh issued a regulation strengthening liquidity management for Central Counterparty (CCPs) by encouraging the use of high-quality liquid collateral. The main objective of this regulation is to encourage CCP participants to provide the required collateral in the form of cash deposits in local currency in the Additional Settlement Account that the respective CCP maintains at the BCCh. This optimizes these entities' access to liquid funds in a faster and more secure manner, improving operational efficiency and the financial system's resilience in times of stress. This new framework, incorporated through the new Chapter III.H.7 of the Compendium of Financial Regulations (CNF), was subject to public consultation between October 16 and 29, 2025, and is currently in operation for one of the ECCs that currently processes the over-the-counter derivatives market (BCCh, 2026).

Development of the payment system and financial market infrastructure

During this half-year, the BCCh will publish the final regulatory framework that will allow certain non-bank entities to gain access to its Real-Time Gross Settlement (RTGS) system. Between 25 November and 26 December 2025, the BCCh submitted a regulation proposal for public consultation that will allow new types of non-bank participants to operate within the RTGS System. During this period, comments were received from entities that are currently in the process of evaluating the requirements necessary to enable this connection. As mentioned in previous reports and in the Payment Systems Report, the goal of this initiative is to strengthen the Chilean payment system by improving its efficiency, security, and competitiveness, as well as by adapting the RTGS to future challenges. This will enhance the resilience of the financial system in the face of stress or market disruptions.

The BCCh will soon publish amendments to its payment card issuance regulations to allow their use in public transportation systems. To ensure smooth access to public transportation, it is necessary for payment methods to be validated very quickly. This prevents credit, debit, and prepaid card transactions from being validated online. To avoid compromising the normal operation of the retail payment system, it is necessary to define within the regulatory framework how these transactions will be handled. Thus, provisions will be incorporated that apply solely to regulated public transportation systems in any region of Chile, leaving room for specific aspects of the system's operation to be agreed upon by its participants. However, this regulation will be evaluated in the future once sufficient information is available, the system ceases to operate as a pilot, and it is in full operation.

Reports submitted by General Fund Managers (AGFs) to the Integrated Derivatives Transaction Information System (SIID) will enable the consolidation of information on the main participants in the derivatives market within that system. Banks and other entities regulated by the CMF have been reporting their derivatives transactions to the SIID since 2022. In November 2025, the CMF amended its General Regulation (NCG) No. 532 on the Fund Information System Manual (MSI) to, among other changes, require that AGFs also report their derivative transactions related to managed funds to the SIID starting in June 2026. For its part, the BCCh adjusted the corresponding regulation, including AGFs as entities required to report their non-foreign exchange derivative transactions (BCCh, 2026). From a financial stability perspective, with this expanded coverage and consolidation, the authorities will improve their systemic view of exposures, interconnections, and potential risk concentrations, as well as the analysis of margin and liquidity dynamics to identify vulnerabilities in the non-banking sector. Since November 2022, derivatives transactions have been reported to the SIID, a repository managed by the BCCh with the aim of improving market transparency, in line with international standards for OTC derivatives developed in response to the global financial crisis of 2008 (Box IV.2)

Other developments

The Consolidated Debt Registry (REDEC) began full-scale operations on 1 April 2026. This registry, established by Law No. 21,680 and administered by the CMF, is designed to centralize information regarding the indebtedness of individuals and legal entities in a unified system. Access to REDEC information is granted to the respective debtors, to financial institutions that report information—limited to their own customers—and to third parties upon the debtor's express authorization, granted through the mechanisms established by the CMF. The registry's database is composed of reports submitted by banks, their subsidiaries, and credit support companies that grant credit; savings & loans cooperatives; insurance companies; mortgage loan administrators; non-bank credit card issuers; and securitization companies, with respect to obligations where the creditor is a separate trust; all of which are regulated by the CMF. In addition, the registry includes data from Family Allowance Funds (Cajas de Compensacion) and other entities not supervised by the CMF that engage in large-scale lending, as defined in a list issued annually by the CMF Board. In its initial phase, REDEC does not include historical data. The registry will be progressively completed through weekly reports, until it reaches a maximum data horizon of five years.

IMPLEMENTATION OF THE PENSION REFORM, THE ROLE OF THE BCCH, AND ACTIONS BY THE SUPERINTENDENCY OF PENSIONS

In February 2026, the BCCh Board established ceilings for investments abroad and those in domestic sovereign instruments applicable to the Generational Funds (FFGG) and the FAPP (Chapter IV, IEF second half of 2025). For the FFGG, the BCCh set the maximum limit for both categories at 80% of the funds' value. These limits will take effect once the new FFGGs are implemented and will be evaluated once their investment framework and the phased nature of their implementation are known. The Board also resolved to apply the same maximums to FAPP investments. These decisions are consistent with the Bank's historical institutional role of safeguarding financial stability by preventing abrupt changes in the composition of pension portfolios from causing disruptions in the financial markets, particularly in exchange rates and local interest rates.

In the case of the FFGG, the limits were set at levels consistent with those currently in effect for the Multifund scheme, and correspond to the maximum amounts provided for in the legislation, giving the Superintendency of Pensions (SP) the greatest possible flexibility to implement the new scheme. In accordance with the provisions of the Pension Reform, the BCCh was required to exercise these powers by 1 March 2026, before the finalization of the investment regime that will apply to the FFGG, which must be issued by the SP no later than September of this year. In this context, the BCCh Board decided to maintain the current policy for Multifunds, a regulation that has set the limits for investments abroad and in local sovereign instruments at the maximum levels permitted by law, prioritizing an approach of regulatory continuity while the SP moves forward with the final design of the investment regime for a gradual and orderly transition to the new scheme

This decision is part of the framework for implementing the Pension Reform, which will take a long time and involves actions by other authorities. A key aspect is the transition from the current multifund system to the FFGGs. As provided for in the law, the SP must issue the investment rules for the FFGGs by next September at the latest, for which a prior public consultation process has been planned. To inform the design of this investment framework, the SP contracted, through a bidding process, a consulting firm specializing in FFGGs, benchmark portfolios, and a structure of performance-based incentives and penalties for managed funds. Once the FFGG framework is defined, these funds will take effect in April 2027, with the possibility of an extended transition period. From the BCCh's perspective, it is of utmost importance that the transition process be carried out in an orderly manner, avoiding abrupt changes that could affect the normal functioning of the local market or exacerbate price volatility unrelated to market fundamentals.

In the case of the FAPP, the Board decided to apply the same investment limits as those for the FFGGs, given that the fund will remain small in its early years, and with the aim of allowing for flexible management. As it acts primarily as a payer of Social Security benefits with predictable cash flows, the FAPP will not accumulate resources rapidly during its first years of operation, and thus will have a limited impact on the financial system. According to the FAPP's financial statements, as of December 2025 the fund's accumulated assets reached US$530 million, in line with the Budget Office's estimates, according to which the FAPP would account for just 0.22% of the value of pension funds in 2025 and 2.82% in 2030. Consequently, the adoption of these parameters for investment limits allows for flexibility in the management of its resources during this initial phase, without anticipating significant effects on the functioning of financial markets. It should be noted that the SP also issued the corresponding investment regime in February 2026.

The BCCh will continue to monitor the implementation of the pension reform, both regarding the rollout of the new FFGG scheme and the performance of the FAPP. This monitoring will factor in the effects observed in local financial markets as the reform is implemented. To the extent that such analysis points to significant impacts, the Board will assess in a timely manner the need to adjust the established investment limits, within the scope of its authority and the current legal framework. Furthermore, given that the FAPP is in an initial stage of accumulating resources and that during the first few years it would primarily serve a benefit-payment function, no potential risks to financial stability are observed in connection with the proposed definition of the foreign exchange hedging framework. However, as the fund grows in size and importance, it will be important to monitor its role as an institutional investor and its participation in the financial system.

At the same time, the Superintendency of Pensions issued a new regulation governing derivatives transactions, which will take effect in 2027. In April 2026, the SP amended the regulation applicable to these transactions. To that end, a Derivatives Exposure Limit (DEL) was introduced, defined as the estimated potential loss of the portfolio under stress scenarios, expressed as a percentage of the fund's value. Additionally, a minimum Liquidity Coverage Requirement (LCR) was established to ensure the availability of liquid assets in local and foreign currency, in the event of collateral being required associated with these transactions, thereby reducing the risk of having to sell off illiquid assets or those denominated in a different currency to meet such requirements. The regulations also strengthen counterparty risk mitigation mechanisms, requiring the use of bilateral collateralization agreements or clearing through duly recognized central counterparties (CCPs), thereby strengthening the operational and financial resilience of the pension system in the face of market stress scenarios (SP, 2026). From 9 April 2026, fund managers had 30 calendar days to begin reporting the first calculation of the risk measures to the Superintendency; a maximum of 210 calendar days to incorporate the LCR and DEL limits into their derivatives management and control systems; and a maximum of 360 calendar days to have the operational and contractual capacity for 100% of new derivatives transactions to be conducted under collateral-management agreements or cleared through a CCP.

BOX IV.1:

Application of the implementation framework of the Countercyclical Capital Buffer[1]/

The Countercyclical Capital Buffer (CCyB) is a macro-prudential policy tool designed to enhance the resilience of the banking system. The CCyB is a capital charge that applies uniformly to all banks and may be released, in whole or in part, upon the materialization of systemic risks. This buffer was incorporated into banking regulatory standards following the 2008–2009 global financial crisis, as part of the Basel III reforms. In Chile, it was written into the General Banking Law in 2019, with the Central Bank of Chile (BCCh) responsible for its activation and deactivation, upon prior favorable report from the CMF regarding its size and compliance timeline. The formal forum of the BCCh Board for its decision regarding the CCyB is the Financial Policy Meeting (FPM), which has been twice a year since May 2022.

In November 2024, the BCCh updated its policy framework for the countercyclical capital buffer (CCyB) and set a positive neutral level for the CCyB at 1% of risk-weighted assets (RWAs). During the Covid-19 crisis, it was observed that those jurisdictions that had built up CCyBs and released them quickly, exhibited a more stable credit flow[2]/. Based on this evidence, various jurisdictions have adopted a positive neutral level for the CCyB (Figure IV.5)[3]/. In November 2024, the BCCh Board reinforced the CCyB's resilience approach and established a neutral level of 1% of RWAs (NCCyB), determining that this level should prevail most of the time to ensure an available capital buffer that could be released in a timely manner during periods of macro-financial stress. Likewise, the Board announced that convergence toward the NCCyB would be evaluated at the first FPM of 2026, allowing for a period of at least one year for its gradual implementation.

The application of the CCyB is governed by the guiding principles established by the BCCh in its policy framework. In that document, the BCCh states that the CCyB is precautionary in nature, and its primary objective is to enhance the resilience of the banking system by building up a capital buffer that can be released, in whole or in part, in the event of severe financial stress or the materialization of systemic risks. The reduction or deactivation of this buffer will generate regulatory capital headroom, providing greater flexibility in managing the banking system's balance sheet and reducing the likelihood of credit supply constraints that could amplify the business cycle. In addition, the CCyB will be implemented during periods when macro-financial conditions allow its impact on credit supply to be limited, while also considering the banking system's capacity to absorb higher capital requirements.

The decision to activate the CCyB does not necessarily mean that banks must raise additional capital. Banks typically maintain voluntary capital buffers for strategic or precautionary reasons that can be used to meet the CCyB requirements without raising additional capital. In this regard, part of the policy objective underlying the CCyB is that, when financial conditions so permit, it should be possible to ensure that the banking system has a minimum amount of available buffers to be released under conditions of financial stress. Moreover, it is important to note that once an increase in the CCyB is announced, banks are granted a period of at least six months to demonstrate that they have built up the required capital. Finally, as provided for in the General Banking Law, in the event of non-compliance, the distribution of profits is restricted as indicated in Table IV.1.

[1]/ "Implementation framework for the countercyclical capital buffer", Central Bank of Chile, November 2024.

[2]/ "Early lessons from the Covid-19 pandemic on the Basel reforms", BIS, July 2021.

[3]/ "Range of practices in implementing a positive neutral countercyclical capital buffer", BIS, November 2024.

In making decisions regarding the CCyB, the BCCh Board considers a broad set of quantitative indicators and data to assess the current and future state of risk conditions for the financial system, weighted by expert judgment. The CCyB level is determined by using the assessment of macro-financial conditions and the status of risks for the financial system as a whole. It also considers other capital requirements for the banking system, bearing in mind that the costs of accumulating capital vary over the course of the business cycle. Based on this analysis, the Board assesses the system's risk profile and defines the corresponding actions for the CCyB, which are classified into the following categories:

The CCyB is at a neutral level. The CCyB remains at its neutral level of 1% of RWAs most of the time, when risk conditions for the financial system are at a standard level and no significant changes are foreseen. In this scenario, the banking system exhibits solvency, activity, and earnings indicators within normal ranges and consistent with the macro-financial scenario, in a context where the credit market and the dynamics of financial asset prices do not deviate significantly from their fundamentals.

Deactivation or release of the CCyB. The CCyB is released in whole or in part when a severe financial stress scenario materializes or when systemic risk materializes. In such an environment, there would be prospects of a significant deterioration in banks' profitability, or even losses, which would erode their capital levels. This scenario could turn regulatory capital into a significant constraint on credit supply, with the resulting expansion of the shock into the rest of the economy.

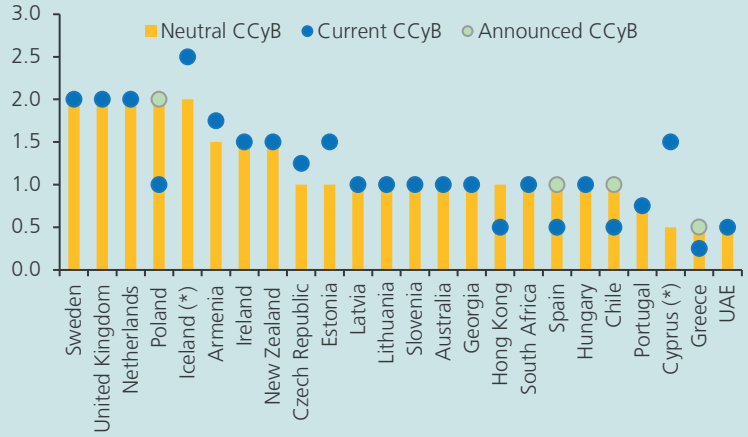
The CCyB is below the neutral level. Following its release, the CCyB will remain below the neutral level for a sufficiently long period, the duration of which will depend on the BCCh's assessment of the evolution of macroeconomic and financial conditions and the state of systemic risk. During this phase, the banking system and credit dynamics should begin to recover, and financial asset prices would start to align with their fundamentals.

Rebuilding the CCyB toward its neutral level. The rebuilding toward the NCCyB will take place gradually as the financial system's recovery consolidates and banks are deemed to have the capacity to increase their capital without significant impacts on credit provision. The macro-financial environment that would allow beginning the reconstruction of the NCCyB is one in which the banking system's balance sheet, risk indicators, and profitability have already returned to normal levels. In that context, one would expect to see a recovery in credit dynamics and asset prices in line with their fundamentals.

The CCyB is above its neutral level. Exceptionally, in a context of a significant increase in systemic risk, the CCyB may be set above the neutral level. Such a situation would occur only in scenarios reflecting a significant increase in vulnerabilities and systemic risk, characterized, among other factors, by credit growth significantly out of step with fundamentals, very high levels of household and corporate leverage, asset overvaluation reflecting increased risk-taking, and/or external risks at levels far higher than usual. All this would occur in a context where banks' balance sheets show unusually high levels of activity and earnings. Likewise, if it is assessed that the financial system has returned to standard risk conditions, the CCyB could be lowered to its neutral level.

Communicating decisions regarding the CCyB is a key element for the BCCh in its use of this tool. In this regard, the BCCh places particular emphasis on clear and timely communication. This includes the policy framework, the overall implementation strategy, the rationale behind decisions related to the CCyB level and the enforcement timeline adopted, as well as the provision of elements that will inform future decisions. Decisions are communicated through an official statement at the end of each financial policy meeting and the publication of the corresponding minutes, which are supplemented by the risk analysis and assessment presented in the Financial Stability Report for the period.

FIGURE IV.5 ***Several jurisdictions have adopted a positive neutral level. Most require a CCyB equal to the neutral level.***
JURISDICTIONS WITH A DEFINED POSITIVE NEUTRAL LEVEL AND CURRENT CCYB CHARGE (*)
(percent of RWAs)



(*) Iceland and Cyprus set a minimum neutral CCyB rate of 2% and 0.5%, respectively.
Source: Central Bank of Chile based on information from the BIS, ESRB and websites of CCyB authorities in each jurisdiction.

TABLE IV.1 ***Potential non-compliance with the CCyB triggers restrictions on dividend distributions.***
LIMITATIONS ON DIVIDEND DISTRIBUTIONS UNDER THE PROVISIONS OF THE GENERAL BANKING LAW

Level of additional capital shortfall	Maximum level of profits that the bank may distribute
Less than or equal to 25%	Maximum distribution: 60% of profits for the year
Greater than 25%, but less than or equal to 50%	Maximum distribution: 40% of profits for the year
Greater than 50%, but less than or equal to 75%	Maximum distribution: 20% of profits for the year
Greater than 75%	The bank may not distribute profits for the year

Source: Central Bank of Chile based on the General Banking Law.

BOX IV.2:

Regulation and development of the derivatives market in Chile

The 2008 global financial crisis marked a turning point that led to the establishment of standards for the OTC derivatives market that remain in effect today. This episode exposed significant deficiencies in this market, including difficulties in managing derivatives during periods of financial stress, particularly for contracts not subject to centralized clearing through Central Counterparties (CCPs) and for which information was limited. To address these issues, the international community agreed on a set of reforms aimed at strengthening this market: among others, centralized clearing through CCPs; the use of standardized framework agreements for cases where bilateral derivatives trading continues; the reporting of transactions to trade repositories; and improvements in the determination of capital and margin requirements[1]/. In addition, depending on the degree of development and market depth in the various jurisdictions, efforts were made to strengthen trading processes through regulated trading platforms or stock exchanges. These reforms have been gradually implemented in Chile, as is briefly reviewed in this box.

Since 2015, a Central Counterparty (CCP) has been operating in Chile, specializing in the centralized clearing of foreign exchange derivatives[2]/. The development of this market infrastructure has made it possible to reduce systemic risk by pooling counterparty risk and adopting standardized risk management practices. Through the novation of contracts between the parties to a bilateral transaction, the CCP replaces the original bilateral obligations with contractual obligations between itself and each of the parties, becoming the buyer to every seller and the seller to every buyer, thereby limiting the accumulation of bilateral exposures. By establishing a series of safeguards and risk management practices, including daily margin requirements, clear procedures for managing defaults, and pre-funded resources to address them, central clearing through a CCP strengthens market resilience. The implementation of these standards in Chile led to the recognition of the regulatory framework for centralized derivatives clearing as equivalent to the European one, as well as the recognition of ComDer as a "Qualified CCP" in June 2022 by European authorities, encouraging the participation in Chile of EU banks and their subsidiaries (ISiP, 2023).

In cases where markets continue to use bilateral trading, since 2018 the BCCh's regulations have encouraged the use of framework agreements for the execution of bilateral OTC derivatives (BCCh, 2025). While international guidelines favor centralized clearing, there are markets in which, for reasons of efficiency or feasibility, it is necessary to maintain the option of bilateral trading, for example, in cross-border derivatives trading. In these cases, bilateral OTC derivative transactions are documented through a "Framework Agreement", which establishes the general terms and conditions under which the transactions will be conducted, including the definition of non-payment events and the procedures for managing such situations through clearing and the orderly close-out of transactions. This mitigates financial stability risks, such as preventing a counterparty's default from triggering a liquidity shock for non-defaulting counterparties. To this end, the BCCh's current regulations allow for the recognition of both international and local framework agreements and establish terms and conditions for applying default clauses between counterparties.

[1]/ The use of framework agreements for derivatives trading is a practice that predates the FSB's recommendations and has become an established market standard.
[2]/ Established under Law No. 20,345, and subject to operating regulations approved by the CMF upon prior favorable report from the BCCh.

Since November 2022, there has been a growing number of reports on derivatives transactions through the Integrated Derivatives Information System (SIID) administered by the BCCh (BCCh, 2026). The SIID is a transaction repository to which market participants report detailed information on their OTC derivative contracts, improving regulatory visibility of transactions by allowing authorities to monitor market size, risk concentrations, and counterparty exposures, and to identify existing interconnections, enabling early detection of systemic risk accumulations. Banks and other entities supervised by the CMF, as well as all those that conduct derivatives transactions with non-residents, must report to this market infrastructure. For its part, through the SIID, the CMF has direct access to the information provided by the entities subjected to its supervision.

The consolidation of these initiatives has contributed to the development of the derivatives market in Chile in recent years, underscoring the importance of continuing to refine its regulatory framework. Currency derivatives trading in the local market has seen significant growth following the 2018 modernization of regulations governing the recognition of framework agreements and netting, particularly when one of the parties is a non-resident agent. In addition, interest rate and inflation derivatives have also expanded in recent years (figures IV.6, IV.7, and IV.8). Greater depth in the derivatives market is beneficial, as it facilitates better risk management by financial institutions, provided that their use is subject to adequate safeguards for financial stability.

Despite the degree of development of the local market, there remain significant areas where further progress is deemed necessary. Beyond the depth of Chile's derivatives market and the regulatory advances described in this box, it remains primarily an OTC market, suggesting that it would be wise to continue identifying opportunities for the eventual development of exchange-traded derivatives. Meanwhile, the Fintech Law, enacted in December 2022, opened the possibility of developing Alternative Trading Systems subject to regulation and supervision by the CMF, which could help incentivize the development of trading platforms specializing in derivatives. Additionally, it is important to continuously review this regulatory framework, taking into account its various dimensions. To determine possible courses of action for the future, the BCCh is planning to seek technical assistance from the IMF. This initiative would facilitate collaboration in analyzing international regulatory standards applicable in Chile, with particular attention to the characteristics of the local market and their appropriate harmonization with the current institutional framework, with the aim of further developing the local derivatives market while maintaining appropriate safeguards for financial stability.

FIGURE IV.6 ***Currency derivatives with non-residents grow after the adoption of netting.***
CURRENCY DERIVATIVES (1)
(billions of dollars)

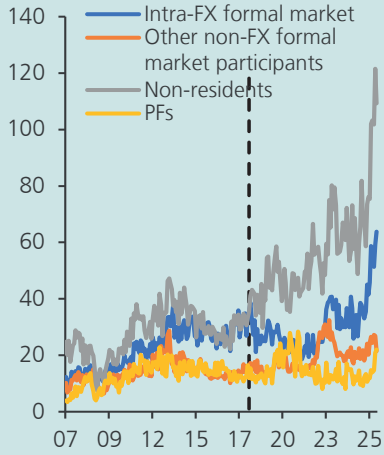


FIGURE IV.7 ***SIID-TR information shows growth in interest rate derivatives.***
INTEREST RATE DERIVATIVES (2)
(billions of dollars)

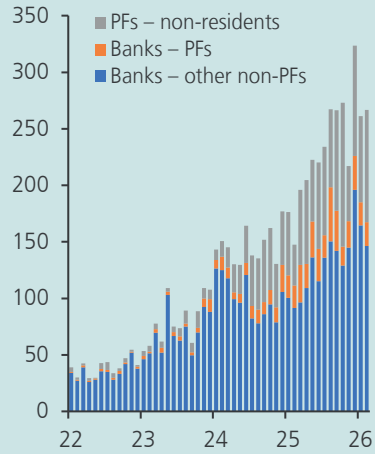
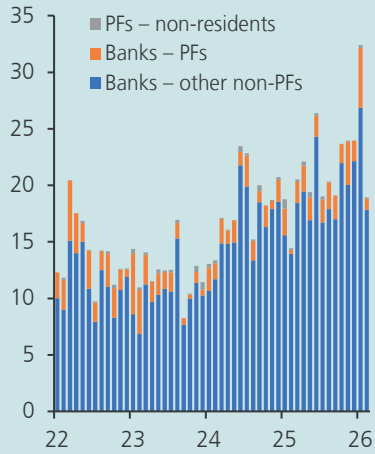


FIGURE IV.8 ***An expansion in inflation derivatives volume is also observed.***
INFLATION DERIVATIVES (2)
(billions of dollars)



(1) Monthly traded amounts of currency derivatives in the Formal Foreign Exchange Market (MCF). The vertical line indicates the issuance of the Central Bank of Chile regulation on framework agreements for OTC derivatives. (2) Monthly traded amounts of derivatives in Chile. Banks–other non-PFs corresponds to transactions in which at least one counterparty is a local bank, including transactions with non-residents; Banks–PFs corresponds to contracts between banks and pension funds..
Source: Central Bank of Chile.

FINANCIAL STABILITY REPORT / **First half 2026**