



FINANCIAL STABILITY REPORT

FIRST HALF 2026





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, high 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 IEF.

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 withdrawals from these funds, adjustments in the yields on such instruments could be amplified. Although 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.



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