

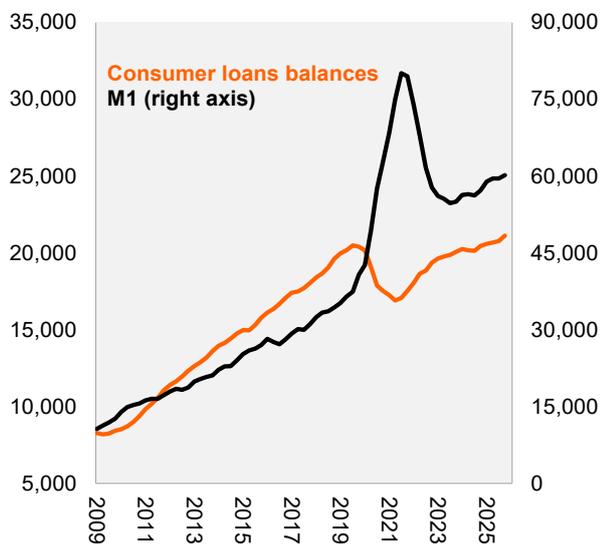
CHILE – Consumer non-performing loans: Have we converged to a new “natural rate”?

- ▶ Chile appears to have “normalized” with growth roughly at potential, inflation expectations at target, monetary policy in the neutral rate range and benefiting from a favorable external backdrop.
- ▶ In this context, we estimate that delinquency rates for consumer loans will remain relatively stable for the rest of this year (roughly 2.6%), while bank provisions at a system-wide level are in line with historical averages.

Delinquency rates appear to have stabilized above pre-pandemic levels. Before COVID-19 consumer non-performing loans (NPLs), measured as consumer loans with payments 90 days overdue, had been relatively stable at 2.1% for half a decade. Then, after an initial increase that reached 2.8% in June 2020, late payments fell to an all-time low of 1.1% towards the end of 2021 due to the substantial increase in household liquidity provided by three pension fund withdrawals (~18% of GDP), as well as government support measures (including universal cash transfers totaling ~8% of GDP). Consumer NPLs started increasing significantly in 2022 and peaked at 3.0% in 2024.Q1, subsequently falling for the remainder of that year to ~2.5% and stayed there. In the most recent prints, however, consumer NPLs have inched up gradually.

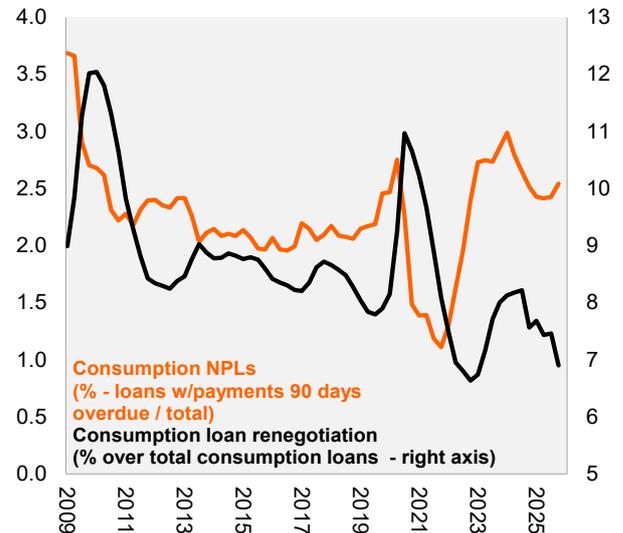
Consumer liquidity measures

(bill. of CLP)



Source: Central Bank of Chile

Credit delinquencies and renegotiations (%)



Source: Financial Market Commission

To estimate the path of consumer NPLs we use a macro-level forecasting framework. In the midst of the pandemic, we developed a framework to estimate the influence of prevailing and expected macro conditions on consumer NPLs as measured by the Financial Market Commission.¹ In this context, the changes in the economic environment were described by the deterioration or improvement of a set of key economic variables chosen to reflect

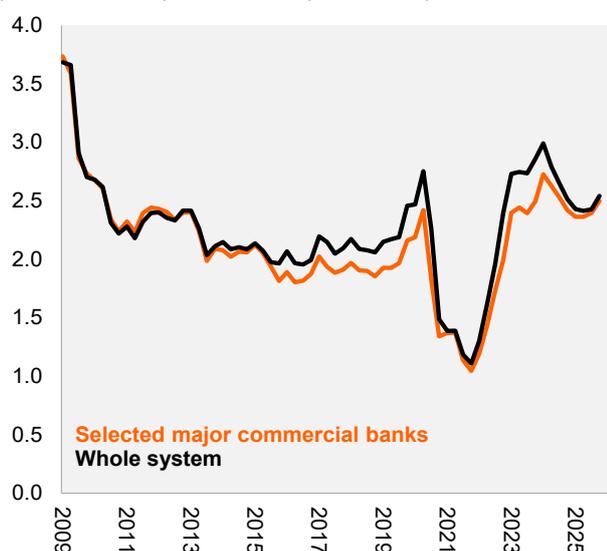
¹ Macro Vision: **CHILE – Consumption non-performing loans (July 2, 2024)** https://macroattachment.cloud.itaub.com.br/attachments/f991ac19-adf9-4c02-b2c8-540cc4c04a7a/20240702_MACRO_VISION_CHILE_Consumption_Loans.pdf

economic momentum, household liquidity and cost of loans. The first two would favor a reduction in NPLs while the latter would do the opposite. The selected variables were: unemployment rate, different housing price indices, consumer loan rate, the monetary policy rate, the consumer price index, the monetary base measure M1 and the consumer loan renegotiation measure. The forecasting horizon was restricted to one year with unavailable data being supplemented with forecasts obtained from our macro scenario. At the time, mid 2024, the model successfully predicted the behavior of NPLs. So, the obvious question to ask is what the model can tell us about the current outlook.²

We estimate consumer NPLs are likely to remain around the current levels for the remainder of the year. At this time many of the post-pandemic adjustments that were still underway mid 2024 are close to or have already concluded. As regards economic momentum, the unemployment rate has hovered around 8.5%, towards the upper bound of the NAIRU, for the last two years while house prices are expected to continue growing at around 2.5% in annual terms. With respect to borrowing rates, the monetary policy rate is currently at 4.5%, within the BCCh’s nominal neutral rate range of 3.75-4.75%; our February scenario considered one cut this year to a terminal rate of 4.25% followed by a prolonged hold. As a result, consumer loan rates are likely to remain stable too. Lastly, setting aside the uncertainty regarding the persistence and intensity of the oil price shock in the Middle East, our forecast considers inflation rising towards the 3% target throughout the year. The only concern among the set of economic variables that we consider comes from household liquidity. While our monetary base measure is back to growing at a stable rate, the consumption loan renegotiation rate continues to decrease, bringing it closer to the post-pandemic historical low than to pre-pandemic levels. Consistent with the most recent data, the model suggests NPLs should edge up slightly. However, we believe consumer loan renegotiations are unlikely to drop beyond COVID19 low. Given a relatively stable recent economic environment and near-term outlook, our framework leads us to believe that we are currently at a rate that is consistent with the underlying economic environment. Importantly, bank provisions at a system-wide level are in line with historical averages.

Consumption NPLs measures

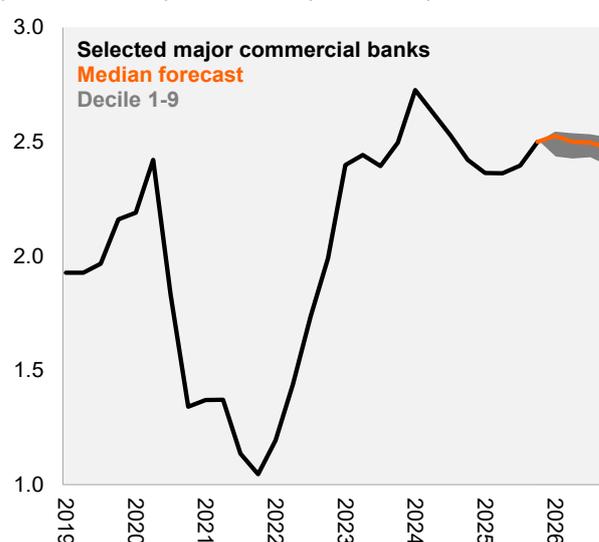
(% - loans w/payments 90 days overdue)



Source: Financial Market Commission

Consumption NPLs Forecast

(% - loans w/payments 90 days overdue)



Source: Financial Market Commission, Itaú

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² For our estimation we concentrated on a subset of the banking sector containing the major commercial banks that represent roughly 75% of the outstanding consumer loans (share of total outstanding consumer loans): Banco Chile (17,6%), Santander (18,5%), Scotiabank (14,5%), Itaú (10,1%), and BCI (10,5%). Two major players were left out, 20% of the market combined, because we considered they seek somewhat different objectives than the rest: The state-owned Banco Estado has in its mission to provide banking services in areas unattractive to commercial banks. Commercial bank Banco Falabella was born out of the Falabella retail chain and a relevant share of its consumption lending is done through the former retail chain’s credit card.

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