PRESS RELEASE

CMF presents an in-depth look at the indebtedness of individuals in Chile

- *The ninth version of the CMF Indebtedness Report reveals that the median bank debt of individuals reached CLP 2.1 million. Meanwhile, 20.7 percent of people have a financial burden exceeding 50 percent of their monthly income.*

January 23, 2023 — The Financial Market Commission (CMF) released today the **2022 Indebtedness Report**. Said Report, which is in its ninth version, aims to provide an in-depth look at the indebtedness of individuals in Chile. It considers data periodically submitted by institutions supervised by the Commission corresponding to individuals with consumer and housing obligations.

The analysis focuses on bank and non-bank debtors and includes an indebtedness review of individuals who have obligations with non-banking card issuers, savings and credit cooperatives, and mutual companies supervised by the CMF.

The Report's methodology examines three dimensions of indebtedness:

- **Debt Level:** Money loans granted by financial institutions to natural persons.
- **Financial Burden:** Percentage of monthly income allocated to pay financial obligations.
- **Leverage:** Number of monthly incomes debtors would need to allocate to fully pay their financial obligations.

The median distribution of each variable is used as a representative indicator of results.

Key Findings

The 2022 Indebtedness Report has an estimated coverage equivalent to 85 percent of household obligations in Chile. **As of June 2022, the representative debt level of bank debtors defined by a median distribution was CLP 2.1 million, while the financial burden and leverage indicators were 16.97 percent and 3.01 times income, respectively.**

These figures are lower than the ones recoded before the pandemic, but higher than those posted in 2021 — the last year of exceptional measures related to fiscal transfers and pension fund withdrawals.

Representative Debt

	2022	2021	2020	2019	2018	2017
Debt (CLP)	2,094,367	2,057,038	2,557,260	2,964,216	3,048,085	3,056,791
Financial Burden (%)	16.97	15.63	17.39	21.85	23.35	23.52
Leverage Index	3.01	2.99	3.74	4.39	4.62	4.66

Inflationary pressures during 2021 resulted in successive increases in the Central Bank of Chile's target interest rate, which led to higher loan rates in all maturities. **In addition, individuals saw their debt service increase because of higher inflation, particularly in products indexed to the UF.** These factors had a particular impact on their financial burden.

Debt Levels

According to the Report, the segment between 40 and 45 years of age has the highest debt level at CLP 6 million, showing a high correlation with home purchase decisions. Additionally, representative debt grows on par with income: **individuals who earn over CLP 1.2 million are 26.2 percent of debtors but represent 68.3 percent of total debt.**

In terms of geographic distribution, the northern and southern zones of the country show higher debt indicators than their central counterpart, particularly in regions with higher average income levels.

By gender, the number of bank debtors is balanced between men and women. **However, women's debt is close to half of men's debt:** CLP 1.5 million versus CLP 3.1 million.

High Financial Burden

As of June 2022, 20.7 percent of debtors had a high financial burden, i.e., over half of their monthly income. Said figure is higher than the one recorded in June 2021. On the other hand, 27.5 percent of debtors had a financial burden exceeding 40 percent of their monthly income.

Accordingly, around 320,000 bank debtors have arrears or unpaid obligations of one or more days, which represents 6.10 percent of all debtors.

Challenges

Monitoring individual indebtedness is especially relevant for financial regulators and supervisors. Economic projections foresee **a scenario of activity contraction and restrictive financial conditions for all types of loans, which combined with a weakened labor market, could affect household payment behavior.** While and better access to credit allows individuals to absorb temporary mismatches between income and expenses, increasing their well-being, high debt levels can affect their capacity to meet financial commitments and increase their vulnerability to shocks, negatively impacting the stability of the financial system.

Therefore, the 2022 Indebtedness Report stresses the importance of **having a Consolidated Debt Registry to achieve more accurate consolidated measurements of individual indebtedness.** This would allow for more consistent measurements of household debt level distributions and be a valuable tool for loan agents when evaluating their clients, contributing to healthier financial inclusion and development.

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