



### 2020 Indebtedness Report

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

*The seventh version of this CMF report reveals that the median banking debt of individuals reached CLP 2.2 million. 16 percent of people have a high financial burden, i.e. over half of their monthly income.*

**January 14, 2021** – The Financial Market Commission (CMF) published today its [2020 Indebtedness Report](#), which aims to provide an in-depth look at the indebtedness of individuals in Chile. Said report is based on data periodically reported to the Commission by its supervised institutions, corresponding to natural persons with consumer and housing loans.

The report's analysis is mainly focused on bank debtors – anyone having financial obligations with banks and their support companies. However, both banking and non-banking debts recorded in the CMF's database are included for such debtors. Additionally, it includes a review of the indebtedness of individuals who have debts with non-banking card issuers, savings and credit cooperatives, and mutual companies supervised by the Commission.

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.

As a representative indicator of results, the median distribution of each of the variables is used.

### Key Results

The 2020 Indebtedness Report considers information regarding 5 million bank debtors with a total of 81 billion Chilean pesos in total loans. This amounts to 88 percent of the total outstanding loan stock of Chilean households. As of June 2020,

the representative debt level of banking debtors – defined by a median distribution – was **CLP 2.2 million**, while the financial burden and leverage indices were **16.9 percent** and **3.6 times**, respectively.

Compared to the same period last year, there is a real increase in representative debt, a downward correction in the financial burden index, and a growth in the leverage index.

## Representative Debt

	2015	2016	2017	2018	2019	2020
<b>Debt (CLP)</b>	1,748,785	1,794,351	2,078,603	2,102,442	2,004,480	2,200,105
<b>Financial Burden (%)</b>	18.5	18.7	19.7	19.6	19.0	16.9
<b>Leverage Index</b>	3.38	3.35	3.70	3.66	3.55	3.66

Source: CMF.

Regarding financial burden, its decrease was due to lower interest rates, mainly in consumer products, and the outflow of a significant number of debtors in credit cards and lines of credit. This is a consequence of the enactment of Law No. 21,167, which imposed automatic payments of credit lines if there is an existing balance on checking accounts. Both effects resulted in lower monthly burdens compared to 2019.

## Debt Levels

According to the report, the segment between 35 and 40 years of age shows the highest level of debt – CLP 5.7 million – showing a high correlation with home-buying decisions. Furthermore, representative debt grows alongside the income of the evaluated population. Debtors with monthly incomes over CLP 1.2 million represent 68.2 percent of the debt while comprising just 22.8 percent of total debtors.

In terms of geographical distribution, the northern and southern regions of the country show higher debt indicators than the central region.

By gender, the number of banking debtors is balanced between men and women – 51.3 percent against 47.1 percent. However, women's debt is less than half of men's: CLP 1.5 million versus CLP 3.1 million, respectively.

## High Financial Burden

As of June 2020, 16 percent of debtors had a high financial burden, i.e. over half of their monthly income. This figure, however, is lower than the 18.8 percent reported

in the same period of 2019. Meanwhile, 23.4 percent of debtors had a financial burden above 40 percent of their monthly income.

Accordingly, about 441,000 banking debtors have arrears or unpaid obligations of one or more days, representing 8.7 percent of total debtors.

At an international level, aggregate household debt in Chile is in line with levels observed in countries with similar per capita income, although with an upward trend in recent years.

There are segments whose metrics are significantly higher than the ones reflected in measurements based on averages or medians. In fact, 23 percent of bank debtors have a financial burden more than twice the average burden, with leverage indices six times higher than average.

## Challenges

Monitoring individual indebtedness is especially relevant for financial regulators and supervisors. Greater and better access to credit allows people to absorb temporary mismatches between income and expenses, which increases their well-being. However, a high debt level can affect their capacity to meet financial commitments and make them more vulnerable to shocks, negatively impacting the stability of the financial system.

As a result, the 2020 Indebtedness Report stresses the importance of having a consolidated debt registry for more accurate consolidated measurements of individual indebtedness. This would allow for a more consistent measurement of household debt level distributions and be a valuable input for loan agents to evaluate their customers, contributing to a healthier financial inclusion and development.

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