Financial Stability Report - March 2012

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Publication Date: Thursday, 6 of February 2014
In 2011, the international economic environment was characterized by a high degree of uncertainty brought about by the problems of public or private debt in many of the industrialized countries. The financial conditions in the euro zone deteriorated significantly in the last quarter of the year and their outlook for growth got worse. Thus, in spite of the recent improvement in the economic strength of the United States, moderate worldwide growth is anticipated for the first six months of 2012. The economic activity indicators in Colombia, in turn, showed a favorable performance in the second half of 2011 and expectations continue to be optimistic.

Intermediation activities showed a strong performance which manifested itself in a growth rate for the credit institutions' gross loan portfolio that was close to a real annual 18% as of December 2011. The consumer and micro-loan portfolios, in particular, were the ones with the highest growth rates while the commercial one presented a slowdown. The expansion of credit generated an upswing in the interest income of the credit institutions which made the profitability and capital adequacy levels favorable.

The non-banking financial institutions (NBFI), in turn, registered less strength in the changes of the loan portfolio in comparison to what had been seen in the first half of 2011. This was reflected in lower levels of profitability. The devaluation in the national variable income securities generated a shift which favored the share of public debt securities and of investments in the financial sector.

When the indebtedness of the main borrowers is analyzed, one sees that the growth in the loans companies have was accompanied by improvements in their economic situation. At the same time, the household financial burden rose as a consequence of the performance of the consumer loan portfolio. In the second half of 2011, the default and loan portfolio quality indicators improved. These are defined as the value of the non-performing and risky loan portfolios expressed as a share of the gross loan portfolio respectively.

This is mainly caused by the greater strength in all of the different types of loan portfolios. The risky and non-performing loan portfolios, in particular, that are part of the consumer loan portfolio showed positive growth although the rise in credit risk in this loan portfolio has been backed by an increase in the loan-loss provisioning.

The exposure to market risk, in turn, climbed as a result of the higher amount exposed and the upswing in the duration of the financial entities' portfolios. This has not translated into increases in the potential loses due to the low volatility of the TES price.

Furthermore, the entities in the financial system showed levels of liquidity during this period that made it possible for them to face an adverse funding scenario though these levels are lower than they were in the first half of 2011. Likewise, when market liquidity risk is analyzed, a situation that is favorable in terms of exposure

to this risk is seen.

In conclusion, in 2011, the financial system continued to demonstrate an expansion process which was reflected in rises in the gross loan portfolio and stable levels of profitability for credit establishments. Although this trend was accompanied by improvements in the traditional indicators of credit risk, the growth of the risky and non-performing loan portfolios that was seen in the second half of the year for some areas of credit highlights the importance of continuing to monitor the quality of financial assets strictly.

Fuente: https://www.banrep.gov.co/en/node/34524