Financial Stability Report - September 2015

Presentation (Only Available in Spanish) Download Keep in mind
The main purpose of these documents is to provide semiannual information on the vulnerabilities and risks of the financial system. The views presented and potential errors are the sole responsibility of the authors and their contents do not compromise the Board of Directors of *Banco de la República*

AUTHOR OR EDITOR Banco de la República José Darío Uribe Hernando Vargas Pamela Cardozo Daniel Osorio Subgerencia Monetaria y de Inversiones Internacionales Departamento de Estabilidad Financiera Esteban Gómez Wilmar Cabrera Felipe Clavijo Jorge Luis Hurtado Óscar Fernando Jaulín Angélica Lizarazo Juan Carlos Mendoza Daisy Johana Pacheco Javier Eliecer Pirateque Carlos Andrés Quicazán Ana María Yaruro María Fernanda Meneses Giovanny Andrés Ninco Publication Date: Wednesday, 11 of August 2021
From this edition, the Financial Stability Report will have fewer pages with some changes in its structure. The purpose of this change is to present the most relevant facts of the financial system and their implications on the financial stability. This allows displaying the analysis more concisely and clearly, as it will focus on describing the evolution of the variables that have the greatest impact on the performance of the financial system, for estimating then the effect of a possible materialization of these risks on the financial health of the institutions.

The changing dynamics of the risks faced by the financial system implies that the content of the Report adopts this new structure; therefore, some analyses and series that were regularly included will not necessarily be in each issue. However, the statistical annex that accompanies the publication of the Report will continue to present the series that were traditionally included, regardless of whether or not they are part of the content of the Report. In this way we expect to contribute in a more comprehensive way to the study and analysis of the stability of the Colombian financial system.

Executive Summary
During the first half of 2015, the main advanced economies showed a slow recovery on their growth, while emerging economies continued with their slowdown trend. Domestic demand in the United States allowed for stabilization on its average growth for the first half of the year, while other developed economies such as the United Kingdom, the euro zone, and Japan showed a more gradual recovery. On the other hand, the Chinese economy exhibited the lowest growth rate in five years, which has resulted in lower global dynamism. This has led to a fall in prices of the main export goods of some Latin American economies, especially oil, whose price has also responded to a larger global supply. The decrease in the terms of trade of the Latin American economies has had an impact on national income, domestic demand, and growth. This scenario has been reflected in increases in sovereign risk spreads, devaluations of stock indices, and depreciation of the exchange rates of most countries in the region.

For Colombia, the fall in oil prices has also led to a decline in the terms of trade, resulting in pressure on the dynamics of national income. Additionally, the lower demand for exports helped to widen the current account deficit. This affected the prospects and economic growth of the country during the first half of 2015. This economic context could have an impact on the payment capacity of debtors and on the valuation of investments, affecting the soundness of the financial system. However, the results of the analysis featured in this edition of the Report show that, facing an adverse scenario, the vulnerability of the financial system in terms of solvency and liquidity is low.

The analysis of the current situation of credit institutions (CI) shows that growth of the gross loan portfolio remained relatively stable, as well as the loan portfolio quality indicators, except for microcredit, which showed a decrease in these indicators. Regarding liabilities, traditional sources of funding have lost market share versus non-traditional ones (bonds, money market operations and in the interbank market), but still represent more than 70%. Moreover, the solvency indicator remained relatively stable. As for non-banking financial institutions (NBFI), the slowdown observed during the first six months of 2015 in the real annual growth of the assets total, both in the proprietary and third party position, stands out.

The analysis of the main debtors of the financial system shows that indebtedness of the private corporate sector has increased in the last year, mostly driven by an increase in the debt balance with domestic and foreign financial institutions. However, the increase in this latter source of funding has been influenced by the depreciation of the Colombian peso vis-à-vis the US dollar since mid-2014. The financial indicators reflected a favorable behavior with respect to the historical average, except for the profitability indicators; although they were below the average, they have shown improvement in the last year. By economic sector, it is noted that the firms focused on farming, mining and transportation activities recorded the highest levels of risk perception by credit institutions, and the largest increases in default levels with respect to those observed in December 2014. Meanwhile, households have shown an increase in the financial burden, mainly due to growth in the consumer loan portfolio, in which the modalities of credit card, payroll deductible loan, revolving and vehicle loan are those that have reported greater increases in risk indicators.

On the side of investments that could be affected by the devaluation in the portfolio of credit institutions and non-banking financial institutions (NBFI), the largest share of public debt securities, variable-yield securities and domestic private debt securities is highlighted. The value of these portfolios fell between February and August 2015, driven by the devaluation in the market of these investments throughout the year. Furthermore, the analysis of the liquidity risk indicator (LRI) shows that all intermediaries showed adequate levels and exhibit a stable behavior. Likewise, the fragility analysis of the financial system associated with the increase in the use of non-traditional funding sources does not evidence a greater exposure to liquidity risk.

Stress tests assess the impact of the possible joint materialization of credit and market risks, and reveal that neither the aggregate solvency indicator, nor the liquidity risk indicator (LRI) of the system would be below the established legal limits. The entities that result more individually affected have a low share in the total assets of the credit institutions; therefore, a risk to the financial system as a whole is not observed.

José Darío Uribe, Governor

Fuente: https://www.banrep.gov.co/en/financial-stability-report-september-2015