Conclusions of the 73rd Session of the Committee for the Coordination and Surveillance of the Financial System

In its virtual meeting today, the Committee for the Coordination and Surveillance of the Financial System, whose members are the Minister of Finance, the Governor of the Central Bank, the Financial Superintendent, and the Director of FOGAFIN (National Deposit Insurance Fund), analyzed aspects that, from a financial stability standpoint, require close monitoring by the Financial Safety Network.

The members of the Committee agree that, to March 2020, the Financial System exhibited adequate resilience in terms of its solvency and liquidity. However, the Committee is aware that the current situation introduced greater exposure to financial risks into the financial system, particularly credit and liquidity risks.

Financial Risks

The members of the Committee, as part of their strategy to monitor emerging risks in the financial system, assessed the different scenarios of credit and liquidity risks by simulating macro and microeconomic shocks, concluding that, under a deep recession scenario, the financial sector remains resilient.

Regarding credit institutions, the Committee discussed the greater-than-expected exposure to credit risk, given the impact of the COVID-19 pandemic on economic activity. According to the scenarios analyzed, credit institutions continue to have adequate levels of solvency that allow them to absorb unexpected losses. Surveillance of the credit portfolio will continue, focusing on the following fronts:

Impact of the grace periods arising from the application of External Circular Letters 007 and 014 of 2020 by the Office of the Financial Superintendent and their effect once the payment of liabilities by borrowers is resumed.

Impact of the behavior of those loans on which no grace periods were applied.

Monitoring of Loans and their Potential Deterioration.

In terms of liquidity, the financial system has the capacity to meet all its obligations in the short term. This is true even in scenarios in which the variables that determine liquidity would have an unusually unfavorable behavior.

General Conclusions

The members of the Committee conclude that the financial system retains its capacity to manage credit and liquidity risks, even in the current adverse macroeconomic scenario.

In order to maintain this outlook, financial institutions shall preserve a healthy balance between compliance with prudential standards to ensure the proper protection of resources received from the public, and their function of irrigating credits to firms and households.

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