



Financial Soundness Index for the Private Corporate Sector in Colombia

Working Paper No. 898 Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Lemus-Esquivel , Juan Sebastián Quicazán-Moreno, Carlos Andrés Jorge L. Hurtado Angélica Lizarazo AUTHORS AND/OR EDITORS Lemus-Esquivel , Juan Sebastián Quicazán-Moreno, Carlos Andrés

This paper has as main objective to build a composite metric of financial soundness for the private corporate sector in Colombia. Instead of relying on the individual and sometimes restrictive financial ratio analysis approach, the purpose of this document is to provide a single metric aimed at measuring the financial health of firms. Said metric, the financial soundness index, is derived by employing the cross-section approach of principal component analysis. For the time period of 2000-2013, the results allow to identify which industries have a weak, strong or similar balance sheet performance relative to that observed for the private corporate sector as a whole. Furthermore for firms that are debtors of the Colombian financial system, validation tests on the index confirm the apparent relationship between accounting data and the credit risk perception of and materialization for financial intermediaries.

The series Borradores de Economía is published by the Economic Studies Department at the Banco de la República (Central Bank of Colombia). The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.