Financial Stability Report - First Semester of 2020

Report Gráficos y cuadros (Only Available in Spanish) 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*

AUTHORS AND/OR EDITORS Banco de la República Office of the Deputy Technical Governor Office for Monetary Operations and International Investments Financial Stability Department Systemic Risk Surveillance Section Liquidity Support and Risk Control Section Publication Date: Wednesday, 3 of March 2021 In the face of the multiple shocks currently experienced by the domestic economy (resulting from the drop in oil prices and the appearance of a global pandemic), the Colombian financial system is in a position of sound solvency and adequate liquidity. At the same time, credit quality has been recovering and the exposure of credit institutions to firms with currency mismatches has declined relative to previous episodes of sudden drops in oil prices. These trends are reflected in the recent fading of red and blue tonalities in the performance and credit risk segments of the risk heatmaps in Graphs. Naturally, the sudden, unanticipated change in macroeconomic conditions has caused the appearance of vulnerabilities for short-term financial stability. These vulnerabilities require close and continuous monitoring on the part of economic authorities. The main vulnerability is the response of credit and credit risk to a potential, temporarily extreme macroeconomic situation in the context of: (i) recently increased exposure of some banks to household sector, and (ii) reductions in net interest income that have led to a decline in the profitability of the banking business in the recent past. Furthermore, as a consequence of greater uncertainty and risk aversion, occasional problems may arise in the distribution of liquidity between agents and financial markets. With regards to local markets, spikes have been registered in the volatility of public and private fixed income securities in recent weeks that are consistent with the behavior of the international markets and have had a significant impact on the liquidity of those instruments In order to adopt a forward-looking approach to those vulnerabilities, this Report presents a stress test that evaluates the resilience of credit institutions in the event of a hypothetical scenario thatseeks to simulate an extreme version of current macroeconomic conditions. The scenario assumes a hypothetical negative growth that is temporarily strong but recovers going into the middle of the coming year and has extreme effects on credit quality. The results suggest that credit institutions have the ability to withstand a significant deterioration in economic conditions in the short term. Even though there could be a strong impact on credit, liquidity, and profitability under the scenario being considered, aggregate capital ratios would probably remain at above their regulatory limits over the horizon of a year. In this context, the recent measures taken by both Banco de la República and the Office of the Financial Superintendent of Colombia that are intended to help preserve the financial stability of the Colombian economy become highly relevant. In compliance with its constitutional objectives and in coordination with the financial system’s security network, Banco de la República will continue to closely monitor the outlook for financial stability at this juncture and will make the decisions that are necessary to ensure the proper functioning of the economy, facilitate the flow of sufficient credit and liquidity resources, and further the smooth functioning of the payment system. Juan José EchavarríaGovernor

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/financial-stability-report-first-semester-2020