Issue No. 16

AUTHOR OR EDITOR

Andrés Murcia

José Hernán Piñeros

To complement a number of studies done in Colombia, based largely on figures from institutional balance sheets, Banco de la Republica has conducted three surveys to date on the credit situation in Colombia. The aim is to collect qualitative information that can be used to determine how financial institutions feel about different aspects of the credit business. The questionnaire for the credit survey done in November 2005 was filled out by the commercial and/or credit vice presidents of 18 credit institutions. The other two surveys, which are similar, were conducted in 2001 and 2003, making it possible to compare the results found at different stages of the economic and credit cycle.

One of the primary objectives of the present study, which is the result of an assessment and analysis of the survey, is to determine if credit dynamics respond more to supply factors than to demand, and if these - particularly the supply factors - have changed in recent years. With this information, it is possible to assess the presence of credit rationing in the Colombian economy.

The survey of the credit situation contains information on how institutions perceive access to credit in the economy and in its different sectors, their outlook, and how easy it is to identify good clients. This same analysis was done according to company size. Questions were asked about how credit institutions might use their surplus liquidity and how they perceive the risks associated with such uses. There also were questions on loan assessment by financial institutions.

The findings of the survey suggest that financial institutions continue to believe the outlook for most sectors of the economy is good, which suggests the demand for credit might continue to grow. However, not all sectors or companies of different size have the same expectations or the same conditions for access to credit. Information-related problems, especially for the farming and livestock sectors and, to a lesser degree, for the export sector, play a major role in identifying good clients and the expected profitability of projects.

The findings suggest there are fewer supply restrictions. However, several exceptions arise in the tradable sectors. This contrasts with the sectors characterized by supply restrictions (non-tradables) in past years, and may be related to trend and expectations concerning the exchange rate.

Shortly after the financial crisis in 1998-1999, the huge losses experienced by Colombian financial institutions seriously reduced their capital, curtailing credit growth. This situation, and the exacerbation of risk, generated a marked preference for low-risk liquid assets (e.g. TES), dampening credit activity.

The evidence now suggests that financial institutions are much less adverse to credit risk, and most restrictions on the credit supply have disappeared. According to the latest survey, the perception of risk with respect to consumer credit and mortgage loans has declined, contrary to earlier surveys, where these types of loans were considered riskier than commercial credit.

Unlike the post-crisis era, current requirements for loan approval are far more lax, and project feasibility and profitability are important elements for a decision on credit. So is knowledge of the client and his credit history.