Box 2
Behavior of Commercial Loans in Domestic Currency, March 2020 - September 2021

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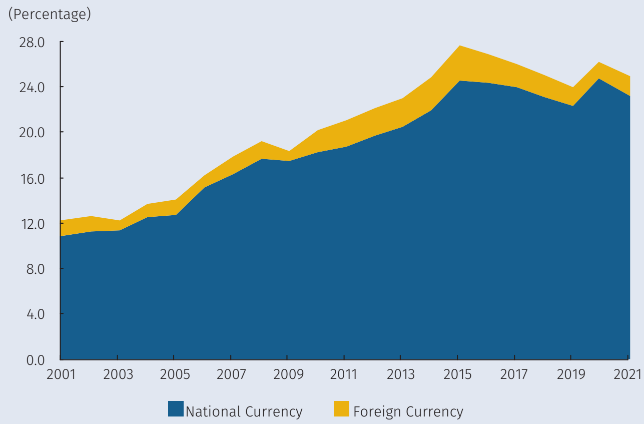
Graph B2.1
Commercial loans to GDP[a/]
(Annual data)



a/ 2021 corresponds to the month of September.
Sources: Office of the Financial Superintendent of Colombia and DANE; calculations by *Banco de la República.*

1.1 The Pre-Pandemic Period

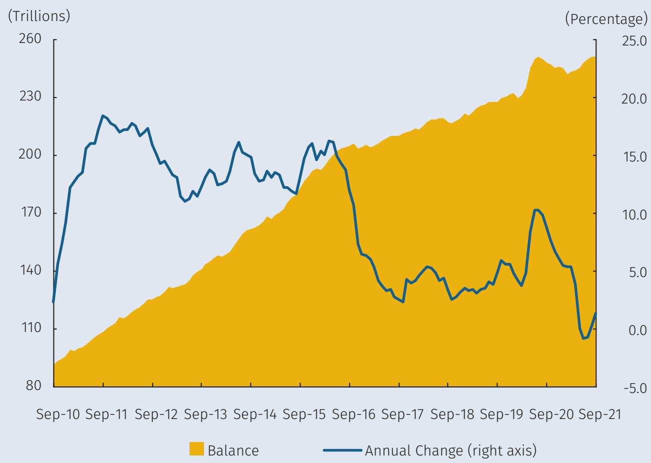
From 2016 to February 2020, the total commercial banking loans (national currency, NC, and foreign currency, FC) were going through an adjustment process (Graph B2.1). From late 2014 to early 2016, persistent declines in oil prices and in the country's terms of trade were reflected in a loss of national income, increases in country risk and credit measures, exchange-rate depreciations, and a sharp slowdown in foreign trade and in absorption. In this environment, since 2015, the commercial loans in FC fell, and from 2016 onwards those in NC slowed from annual growth rates of around 15% in the first half of 2016 to a minimum of 2.4% in September 2017 (Graph B2.2, Panels A and B). Since last year, corporate indebtedness exhibited a greater contribution from other financing sources than those granted by local credit institutions (CIs). Direct external credit gained momentum, and made a greater contribution to commercial indebtedness, while the commercial loans in NC lost participation. In 2019, with the addition of debt instruments and direct external borrowing to the trading portfolio, commercial indebtedness surged.

The commercial loans in NC experienced a significant slowdown in 2016 and continued to grow slowly until the pandemic began (Graph B2.2, panel A). The gross commercial loans in NC increased from 16% growth figures in the first quarter of 2016 to values that stood between 3.0% and 4.0% in the following years and until the first two months of 2020. In general, despite transient upturns toward the end of 2019, in the years leading up to the pandemic, corporate credit growth rates were significantly lower than those observed before 2017.

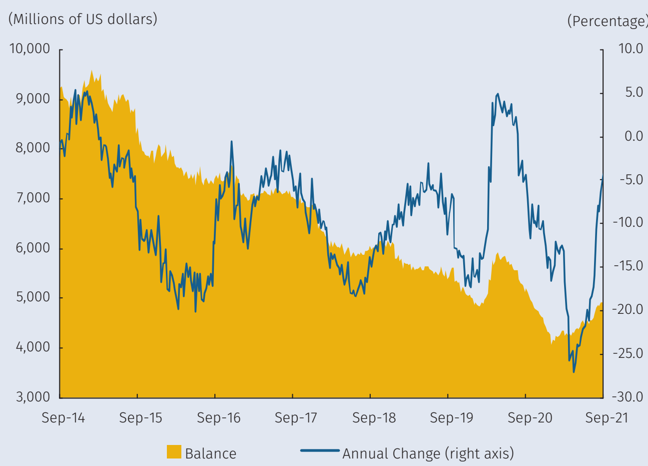
The low dynamism of the pre-pandemic commercial loans occurred in an environment of low nominal and real commercial interest rates. After the record highs in August 2016, interest rates to companies continued to perform downward, in line with the period of monetary policy rate reductions (MPR). During 2018 and 2019, the declining trend

Graph B2.2
Commercial Loans
(Balance and annual change)

A. National Currency



B. Foreign Currency
(Weekly data)



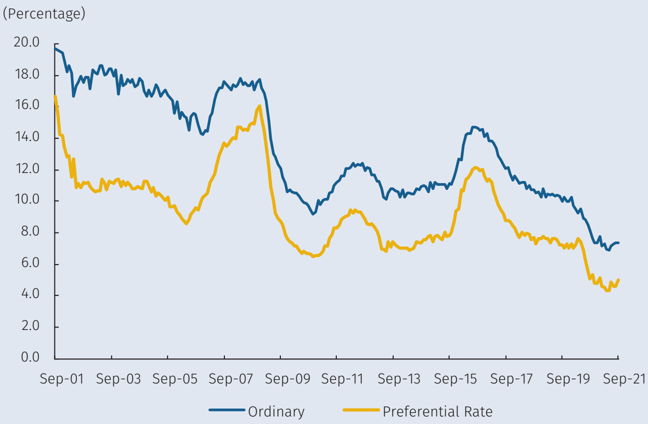
Source: Office of the Financial Superintendent of Colombia; calculations by *Banco de la República.*

* The authors belong to the Programming and Inflation Department of *Banco de la República*. The opinions expressed herein are solely their responsibility and do not necessarily reflect those of the Central Bank or its Board of Directors.

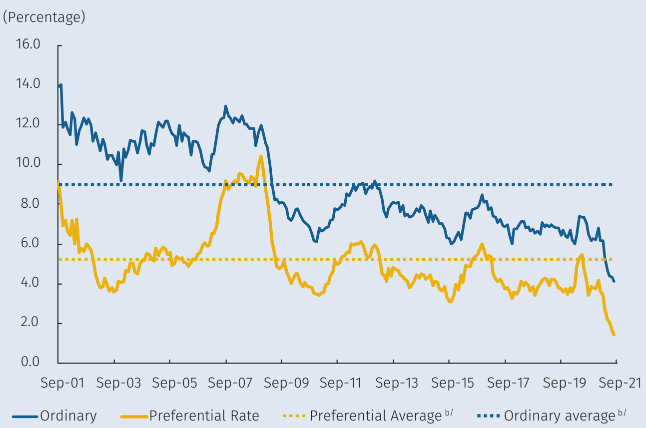
in the rates of regular and preferential loans moderated and remained at nominal and real levels below their historical averages calculated since 2000 (Graph B2.3). Low commercial interest rates, along with the slow recovery of commercial loans, suggested that demand for this loan category remained weak before the pandemic.

In the months leading up to the pandemic, the risk indicators of the commercial loans had shown some improvement, after reaching historically high levels in 2018[1] (Graph B2.4). Since 2016, while the commercial loans slowed down, the default indicator deteriorated in all economic sectors, except for mining and financial activities. Sectors such as electricity, transport, and agriculture exhibited the greatest deterioration in this indicator[2]. During 2018, the level of this indicator was 4.6 %, on average, higher than had been observed since 2015 (3.3 %). During the second half of 2019 its levels remained high but showed a decreasing trend that remained until early 2020. This suggests that the modest dynamism registered by the commercial loans in the months before the pandemic was accompanied by a slight improvement in its quality.

Graph B2.3
A. Nominal Commercial Interest Rates
(Monthly averages)

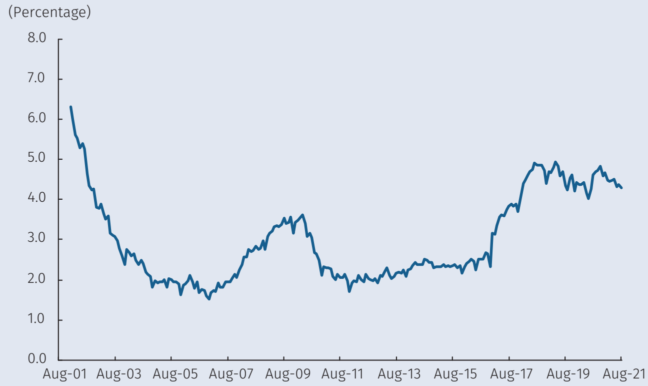


B. Real Commercial Interest Rates[/a]
(Monthly averages)



a/ Deflated with CPI excluding food.
b/ The averages are calculated since 2000.
Source: Office of the Financial Superintendent of Colombia; calculations by *Banco de la República*.

Graph B2.4
Commercial Loans Default Indicator
(Monthly data)



Source: Office of the Financial Superintendent of Colombia; calculations by *Banco de la República*.

1.2 Pandemic Period

In the face of the pandemic and its possible consequences on the financial system, the Central Bank of Colombia responded immediately, providing significant liquidity to stabilize the payments and credit system, implementing coverages to fill the currency liquidity gap and reducing the policy interest rate. The Board of Directors of *Banco de la República* (BDBR) responded immediately and in a timely manner to the sudden changes in the macroeconomic conditions caused by the emergence of the pandemic with actions aimed at providing ample liquidity to the economy and ensuring the smooth operation of the payments system, as well as of foreign exchange, public debt, and credit markets. To this end, the Board expanded the amounts, counterparties, terms, and eligible titles for the Bank's transitional expansion operations (i.e., repos) and the modalities of public and private instruments. The Bank also reduced the cash reserve by 2.0 percentage points (pp), on average (from 7.0% to 5.0%) and purchased public and private instruments. Additionally, to reduce the pressure on the foreign exchange market, intervention mechanisms were introduced (such as forward sales of dollars and dollar swaps) that facilitated hedging and expanded liquidity in dollars leaving the foreign reserves unaffected. Moreover, the policy interest rate fell significantly (-250 basis points, bp), with the aim of reducing financial costs to households and businesses and supporting economic recovery as markets returned to normal. As of September 2021, the policy interest rate was at nominal (1.75%) and real historical lows, with which the monetary policy stance was widely expansionary throughout the pandemic period.

1 The levels observed in 2018 are the highest since 2005.

2 See *Financial Stability Report*, March 2018: https://www.banrep.gov.co/es/reporte-estabilidad-financiera-primer-semestre-2018

Since the beginning of the pandemic, the Government implemented measures to strengthen liquidity and facilitate access of businesses credit. Since mid-March, the NCG has issued measures to facilitate the provision of loans for working capital and payroll payments[3]. For this purpose, it enabled a guarantee program with the Fondo Nacional de Garantías (National Guarantee Fund) with a quota of COP 7.4 trillion (t) for commercial credit[4], which subsequently increased to COP 15 t. Under this program, companies could cover up to 90 % of loans according to their vulnerabilities and risk levels. It also authorized the opening of direct credit and rediscount lines through Bancoldex, Findeter, and Finagro with initial resources by COP 3.3 t[5], which then increased to COP 3.9 t[6]. As for liquidity, it postponed the fulfillment of tax obligations, it accelerated tax refunds[7], and deferred the contribution to pensions for April and May[8]. It also implemented the Formal Employment Support Plan (Plan de Apoyo al Empleo Formal, PAEF)[9], by which the Government contributed 40% of a minimum wage for each employee retained by companies that showed a fall in their income of at least 20% during the pandemic[10]. This subsidy remained in force until March 2021.

The Office of the Financial Superintendent of Colombia (aka: *Superfinanciera*) issued rules by which it granted special treatment to those debtors who had problems to comply with their credits. Without affecting the credit rating[11] and effective from March to July 2020, the *Superfinanciera* authorized the CIs to agree on temporary changes in the interest rate[12] as well as in installments, terms, and grace periods with debtors. Then, in the so-called Debtor Accompaniment Program (PAD)[13]—initially implemented in the second half of 2020 and extended until June 2021—it defined the parameters for adjusting the financial conditions of the current loans. This program sought to make financial conditions more compatible with the deterioration facing the economic activity without applying the restructuring rules, albeit recognizing the financial impacts and calculating, as per ordinary regulations, the provisions that resulted from the risk assessment models.

The strong expansion of liquidity and the increase in the preference for liquid assets was reflected in a significant increase in M3 and its components. Deposits sufficed to meet a significant demand for credit. Between the end of February and June 2020, M3 increased by about 9.5% (COP 51.6 t), and recorded annual growth rates close to 16%, the highest in the last six years, reflecting the strong increase in the demand for cash and demand deposits[14]. The set of measures implemented by the BDBR allowed to deliver additional resources close to COP 40 t to the economy between March and June 2020. These resources represented approximately 35% of the monetary base, 7.0% of secondary liquidity (M3), and 3.7 % of the country's GDP. The increase in deposits—validated by the strong liquidity injection by the Central Bank—was of such magnitude that it allowed an expansion of all the asset items of CIs[15]. Liquidity injection also helped stabilize public and private debt markets and ensure the smooth operation of the payments system. In addition, the total credit to deposits ratio in NC was broad, suggesting the availability of resources to support credit growth.

In an environment of high uncertainty at the beginning of the pandemic, companies requested a high amount of credit to protect themselves against future deterioration of their cash flows. At the end of 2020, the companies made pre-payments, and the commercial loans began to contract. In the second quarter of 2021, this balance began to grow, albeit at low rates. Since mid-March 2020, the high volatility and uncertainty in the markets, generated by the health crisis and the closures of many economic sectors[16] contributed to increase corporate demand for credit to prevent the deterioration of their cash flows. Thus, in the March-April two-month period, disbursements of preferential loans doubled vis-à-vis those observed in the rest of the year, while amortizations were reduced, partly due to the grace periods authorized by the *Superfinanciera*. Consequently, between February and June, the jump in the level of the commercial loans in NC was remarkable[17], and its annual growth moved from 3.7% to 10.3%. In the second half of the year, amortizations increased, and credit prepayments were recorded, resulting in a fall in the commercial loans toward the end of 2020. This occurred in an environment where grace periods were expiring, fears of liquidity risks were dissipating, and the economy was recovering, although at levels still far below those observed before the pandemic. Subsequently, in 2021, the commercial loans increased significantly between the first and second quarter, but annual growth in June reduced partly due to a high basis of comparison (the commercial

3 Resolutions 380 of 10 March 2020 and 385 of 12 March 2020. Legislative Decrees 417 17 March 2020 declaring the Economic, Social, and Ecological Emergency, and Decree 417 of 23 March 2020 authorizing second-floor official financial institutions to design instruments to support credit to enterprises.

4 For micro-enterprises and independent workers, quotas for COP 2.6 t were made available, and have been increased to COP 10.6 t.

5 See Reports on the Financial System During the Compulsory Quarantine for Life from the Office of the Financial Superintendent of Colombia.

6 For more details, see Box 2 of the April 2020 Monetary Policy Report.

7 Legislative decrees 520 of 6 April 2020 and 535 of 10 April 2020.

8 Decree 558 of 2020.

9 Legislative Decree 639 of 6 May 2020.

10 Percentage that was increased to 50% on that date whenever employees were women and the company belonged to the sectors mostly affected by the pandemic. Law 2060 of 22 October 2020.

11 External Circular Letter 007 and 014 of March 2020.

12 Forbidding any increase in the interest rates initially agreed or any administrative charge.

13 External Circular Letter 022 of 30 June 2020.

14 Within the M3, there was a high growth of cash and demand deposits. In particular, regarding cash, real growth was the highest since the 1980s.

15 Between the end of February and June 2020, deposits increased COP 39.4 t compared to credit, which grew COP 16 t.

16 Decreed by the Government as a strategy to limit the spread of Covid-19.

17 The commercial loans in NC increased from COP 231.6 t in February to COP 251.4 t in June 2020.

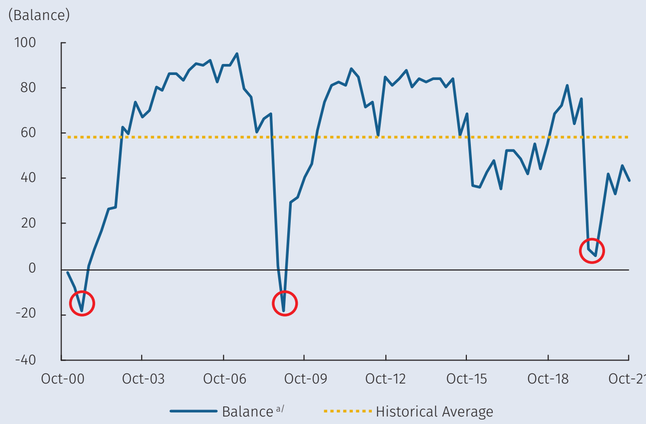
loans contracted by 0.7%, annually)[18]. In September, the balance of the commercial loans exceeded the high levels observed a year before, recording an annual 2.36% growth, even lower than the one estimated for economic activity. This took place in an environment of strong output recovery (after the negative effects of the third wave of Covid-19 and the roadblocks on the product in the second quarter), improvement in CI profits, credit risk moderation, and a broadly expansionary monetary policy stance.

Analysis of the micro-data shows that the aggregate behavior of the commercial loans exhibited significant heterogeneity during the pandemic. The information (disaggregated by corporation) shows that the aggregate behavior of the commercial loans reveals differentiated performances by level of indebtedness. At the beginning of the pandemic, credit flowed mainly to a small number of companies with large disbursements, particularly those seeking liquidity to fill the fall in their income. According to the data, 1.0 % of the firms that increased their indebtedness the most between December 2019 and June 2020 respond almost entirely for the behavior of the aggregate commercial credit, its increase, and its subsequent decrease[19]. By excluding this 1.0% with higher debt growth, the commercial loans performance was more stable, and even accelerated from the fourth quarter of 2020. Discounting the 10% or 20% of the firms that increased their indebtedness the most, the performance of this loan category exhibited a fall in the first half of 2020 and a strong recovery in the second half. In summary, at the beginning of the pandemic, credit flowed mainly to a small number of large companies with high disbursements, particularly those seeking liquidity to fill the fall in their sales in 2020. Since late 2020, credit has flowed to other corporations[20].

Despite the strong increase in commercial credit at the start of the pandemic, the perception of credit availability fell, albeit less than in other crises. A significant recovery of this indicator was recorded afterwards. The results of *the Quarterly Survey of Economic Expectations*[21] suggest that in the second quarter of 2020, companies experienced a drop in credit availability (Graph B2.5); however, this was less marked than the one observed in other crises, such as those recorded in 1999 or in the international financial crisis of 2008-2009. During 2021, the perception of credit availability continues to recover, and as of October it continued to come close to its historical average.

Between March and August 2020, the commercial credit risk did not increase due largely to the measures implemented by the *Superfinanciera*. Subsequently, credit risk increased and moderated only until the third quarter of 2021. Until July 2020, the default indicator, including the portfolio write-offs, remained at the levels observed in 2019, fluctuating at about 8.2%. The risk was only revealed since August 2020, as the grace periods authorized by the *Superfinanciera* expired and the collection of obligations normalized. In November of the same year, the indicator rose to 9.3%, and fluctuated around this level until the first half of 2021. This stabilization was aided by the recovery of economic activity and the management of credit risk under the PAD, which alleviated the credit conditions of 5.0% of the commercial loans with grace periods (with average duration of five months), terms (with average extensions of seventeen months), interest rates (with average reductions of 128 bp) and installments (with an average reduction of 13.7%)[22]. A marginal reduction in arrears was observed during the third quarter of 2021, which was 9.1% in August.

Graph B2.5
Current Perception of Credit Availability



a/ Balance = high perception + no perception - low perception.
Source: *Banco de la República*, Quarterly Expectations Survey

Trade credit performance during the pandemic occurred in an environment of transmission of MPR reductions to interest rates of new preferential and regular trade credits. In real terms, these rates are at historically low levels. The historical evolution of this transmission has been subject to wide uncertainty and has not been immediate, as it depends on several factors such as the situation of the economy, the characteristics of the CIs, the limits on interest rates, and MPR expectations, among others. For example, for Colombian, some studies show that in periods with inflation above the target and positive output gaps the likelihood of a transmission of the MPR decreases. Also, that a 90% transmission of changes in the MPR toward interest rates on preferential credits (fourteen months) is faster than to ordinary commercial credits (twenty-three months)[23]. As the sensitivity index (SI) suggests, between

18 This took place despite the positive effect of using guarantees and credit lines provided by the Government and the implementation of the PAD. As of December, the use of guarantees reached 55% (COP 15 t quota), the use of credit lines arranged by the Government reached 87% (COP 3.9 t quota), and the PAD was COP 12.5 t, equivalent to 5.1% of the commercial loans. These credit policies were subject to greater demands for the approval of disbursements by the CIs as a risk-control measure.

19 See https://www.banrep.gov.co/es/blog/dinamica-y-heterogeneidades-del-credito-comercial-el-periodo-pandemia

20 According to the 20th Labor Market Report of October 2021, during the pandemic, companies with lower liquidity and profitability margins and higher debt reduced their payroll the most during the crisis.

21 Conducted by *Banco de la República*, it is applied to traders, manufacturing and mining industries, financial systems, major chain stores, transport, and communications, academics and consultants, and trade unions.

22 October 2021 Report on the Financial System during the Mandatory Quarantine for Life, by the Office of the Financial Superintendent of Colombia.

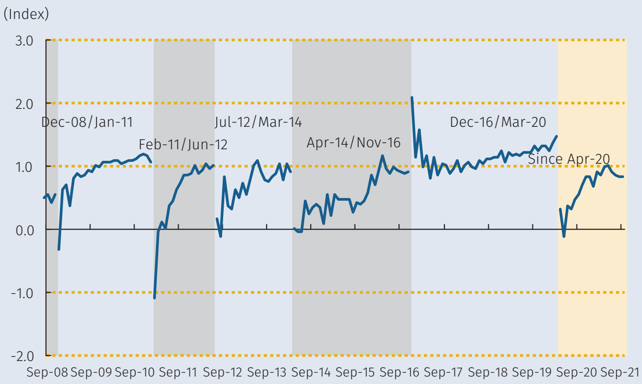
23 For more information, see "The Transmission of Changes in the Monetary Policy Interest Rate (MPR) to Credit Institutions' Interest Rates (CI)." Box 1, *Monetary Policy Report,* April 2021, *Banco de la República*.

March 2020 and September 2021, transmission was faster than that usually observed in other years and faster than had been estimated in econometric studies (Graph B2.6). In that period, 90% (IS ≈ 0.9) of the transmission of the accumulated fall of the MPR to preferential rates was reached in September 2020 (six months), and full transmission (IS ≈ 1) was observed in December (nine months). As for regular credit rates, 90% transmission was reached in February 2021 (eleven months) and completed in May 2021 (fourteen months). In real terms, interest rates applied to preferential and regular credits declined. As of September, they are at historical lows (Graph B2.3). By contrast, to September 2021, the interest rate for micro-credits had not reacted to the reductions in the MPR (IS = 0.03).

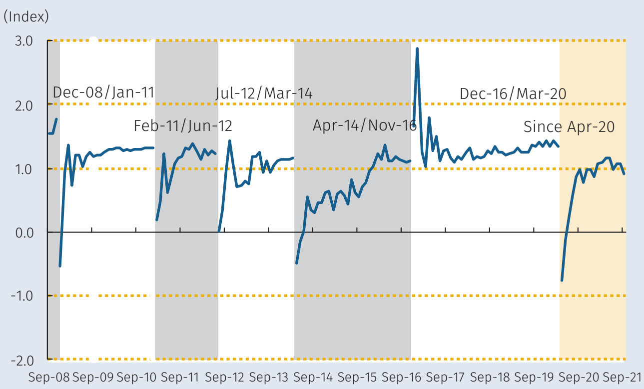
The reduction in the MPR also generated a lower financial cost in much of the total balance for corporate credit. The relief in the financial cost of credit was also recorded in interest rates applied to commercial loans balances, as a significant fraction of the credits are indexed to the bank reference index (IBR) or the rate of term deposits (DTF). As of February 2020, of the total balance of the commercial loans, 34.3 % and 39.7 % were tied to the IBR and the DTF, respectively. These figures moved to 44.1 % and 29.9% respectively by mid-September 2021 (Graph B2.7). Since the reduction in the IBR (-247 bp) and in the DTF (-241 bp) was similar in that period to the decrease in the MPR (-250 bp), the financial cost of 74% of the balance of commercial credits was reduced by the same magnitude.

Graph B2.6
Ordinary and Preferential Commercial Credit Interest Rate Sensitivity Index[a/] *vis-à-vis* the MPR[b/]

A. Ordinary

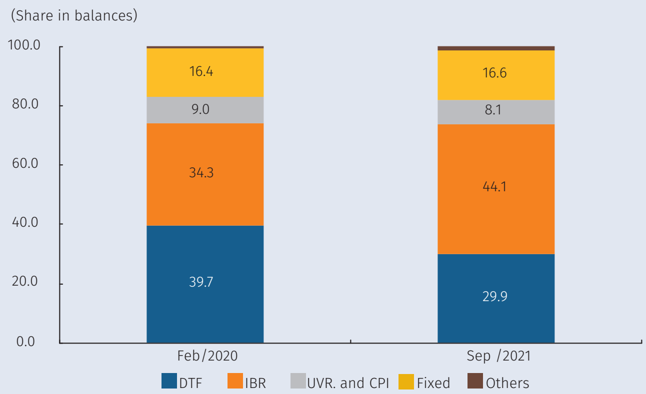


B. Preferential



a/ Sensitivity Index (SI): The sensitivity index contrasts for each period of increase or reduction of the MPR the cumulative change of a market rate versus the cumulative change in the MPR for each period of increase or decrease in the MPR. SI<0 represents a contrary reaction to the MPR; 0<SI<1, low sensitivity to the MPR (less than proportional); SI=1, full transmission of the MPR; SI>1, high sensitivity to the TPM (more than proportional). Gray stripes indicate periods of increases in the MPR; white stripes indicate decreases, and the last one shows the current period of decline.
b/ Information as of 1 October 2021.
Source: *Banco de la República;* calculations by the authors.

Graph B2.7
Commercial Loans in National Currency by Interest Rate Modality



Source: Office of the Financial Superintendent of Colombia and *Banco de la República.*