



# FINANCIAL STABILITY REPORT

MAY  
2019



**CENTRAL BANK OF PARAGUAY**

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[www.bcp.gov.py](http://www.bcp.gov.py)

Asunción - Paraguay

## Executive Summary<sup>1</sup>

Since the last publication of the Financial Stability Report (FSR), and more specifically since the second half of 2018, the global economy has been losing momentum, in the advanced economies as well as in the emerging ones. In addition, the uncertainty derived from the trade tensions between the United States and China, tighter financial conditions, and some idiosyncratic matters in certain countries, among other factors, have affected the performance of global trade, business confidence, and therefore economic activity worldwide. In this more complex context, the expansion of the global economy decreased from 3.8% in 2017 to 3.6% in 2018. Likewise, for 2019, global growth projections have been cut from 3.7% to 3.3%, explained by the correction of the growth forecasts of both advanced and emerging economies.

As regards the advanced economies, a lower growth rate is expected in the United States, while in the Eurozone, it is expected that the residual weaknesses reported in second semester 2018 will restrain the growth rate, keeping it downward in 2019. Among the emerging economies, the complex scenario of the regional economies is highlighted, as reflected in the slower than expected pace of recovery of the Brazilian economy and the deterioration of the Argentinean economy, which has led to a real appreciation of the Paraguayan Guarani. This has resulted in the decrease of the flow of Argentinean tourists, thus affecting border zone trade. In this scenario, the growth indicators of Paraguay's trade partners have registered downward revisions with respect to the previous FSR report.

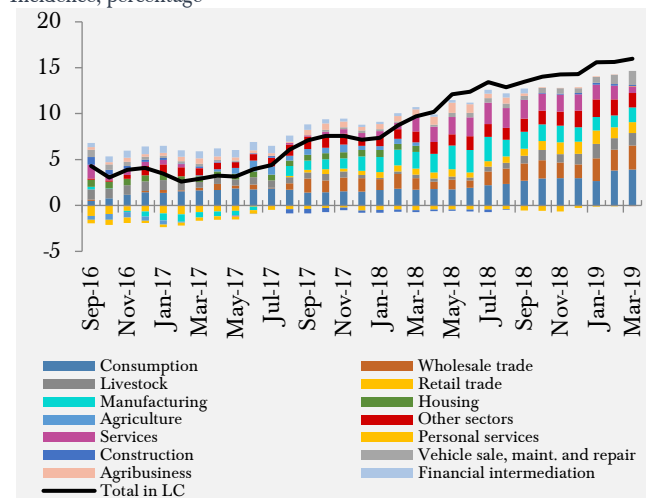
On the other hand, the uncertainty stemming from the monetary policy of the United States has attenuated because of the Federal Reserve's more conservative stance with respect to the future adjustments of the range of its interest rates. In this context, Treasury Bond yields have decreased with respect to the last FSR report. The United States' currency has continued with the same dynamism as pointed out in the previous report, although it is showing a more gradual appreciation.

As regards the local financial system, bank loans have continued to register a positive performance since the previous FSR. However, upon disaggregating the data by currency, bank loans granted in domestic currency have verified continual growth, with increasingly greater rates, whereas, loans granted in foreign currency has decelerated (graphs I and II).

**Graph I**

### Loans in local currency

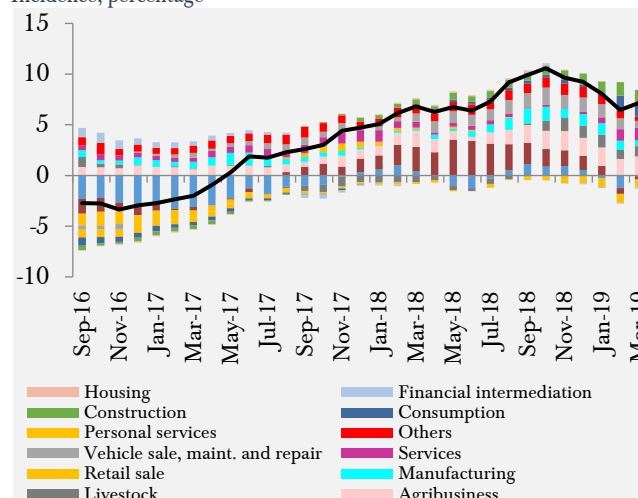
Incidence, percentage



**Graph II**

### Loans in foreign currency

Incidence, percentage



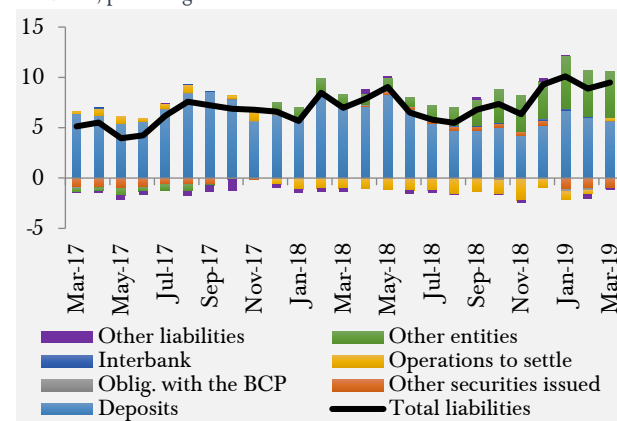
Source: Central Information Unit. Superintendency of Banks.

<sup>1</sup> The Spanish version prevails.

The liabilities of banks and financial companies have continued to expand, with growth rates that surpass those registered one year ago, a behavior that is attributed especially to the increase of deposits and non-traditional funding coming from other financial entities. With respect to deposits, these have increased 6.8% y-o-y by March 2019, explained mainly by the increase of Certificates of Deposit (CDA). In the national currency (guaranies), deposits have continued with the lower dynamism exhibited in the last FSR, while deposits in foreign currency –although they had previously given certain signs of recovery– have again registered a contraction in the last few months, showing a negative annual variation of 4.9% in March 2019 (graphs III and IV).

**Graph III**  
**Liabilities**

Incidence, percentage



Source: Balance sheets reported to the Superintendency of Banks.

**Graph IV**  
**Deposits by currency**

Annual variation, percentage

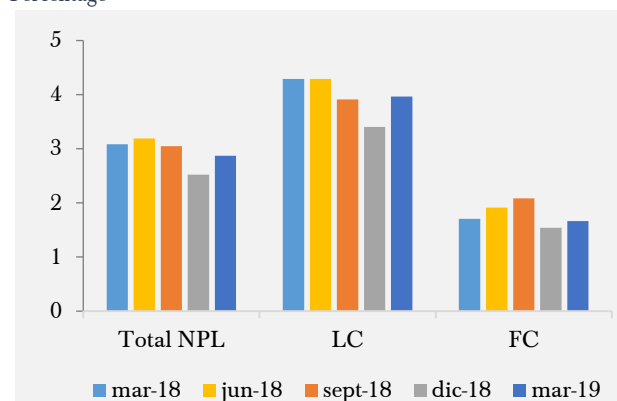


Source: Balance sheets reported to the Superintendency of Banks.  
Note: Foreign currency (FC), local currency (LC). The data correspond to banks and financial companies.

The Non-performing loans (NPL) ratio of the financial sector has shown a slight decrease since the last report, standing at 2.9% at the end of the first quarter 2019, explained, in part, by a larger growth of the total portfolio with respect to the increase of the non-performing loan portfolio. In terms of currency, the NPL ratio for loans granted in US dollars has decreased, and the NPL-ratio in guaranties has increased since the last report. By economic sectors, the majority registered lower NPL rates with respect to the previous report, showing an improvement in portfolio quality (graphs V and VI).

**Gráfico V**  
**Non-performing loans**

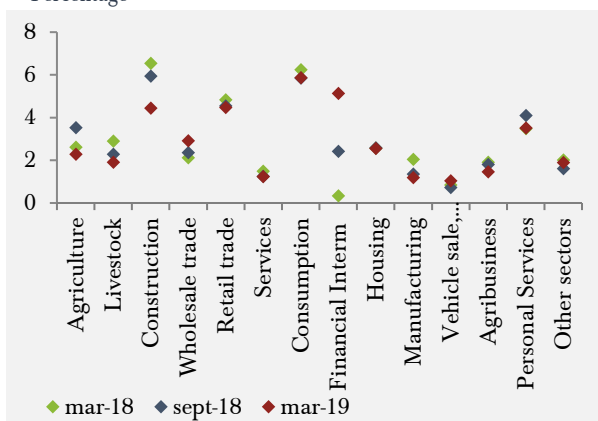
Percentage



Source: Balance sheets reported to the Superintendency of Banks.  
Note: Foreign currency (FC), local currency (LC). The data correspond to banks and financial companies.

**Gráfico VI**  
**Non-performing loans by sector**

Percentage

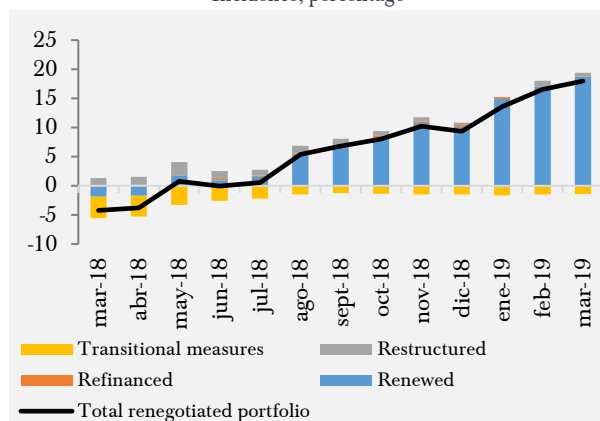


Source: Central Information Unit. Superintendency of Banks.

The renegotiated portfolio has maintained the upward trend exhibited since the publication of the previous FSR; the renewed portfolio is the portfolio that has presented a greater incidence for this increase. As regards credit risks

coverage, the financial system's portfolio of non-performing loans has remained fully covered by total provisioning since the previous FSR report (graph VII).

**Graph VII**  
**Renegotiated portfolio**  
Incidence, percentage



Source: Balance sheets reported to the Superintendency of Banks.

On the other hand, the indebtedness of households with banks and financial companies has registered an increase of 6.3% y-o-y, explained largely by debts related to consumption, and to a lesser degree, to housing debts. At the same time, a decrease of the NPL ratio has been observed, as compared to the data provided in the previous report.

Corporate debt has increased as a percentage of GDP (24.9%). By March 2019, corporate indebtedness represented 64% of total credit extended by the financial system, showing an annual increase of 22.7%. This increase has been explained by the positive contribution of the credit granted to businesses that operate in the trade, agriculture, livestock production, and manufacturing sectors. As regards the quality of the business portfolio, the NPL-ratio has decreased in the last year, to stand at 1.7% in the first quarter of 2019. Likewise, the NPL-ratio of the bank loans granted to the corporate sector has decreased in the majority of the economic sectors.

As regards the market risk, the spread in bank interest rates was reduced in guaranies, due to the decrease of lending rates in most of the economic sectors and the increase of deposit rates in local currency. On the other hand, the spread of bank interest rates in United States dollars has increased in annual terms, explained mainly by the greater increase of lending rates with respect to deposit rates. The risk of foreign currency mismatches has been controlled at the aggregate level, since the system as a whole registered a positive foreign currency position up to March 2019.

With respect to the financial stability indicators, credit extended by banks and financial companies represents 38.9% of the Gross Domestic Product (GDP) and deposits represent 41.4% of the GDP in nominal terms. Credit largely continues to be funded by deposits, especially those held in local currency. With respect to non-traditional financing, in March 2019 external funding represented 24.4% of the deposits in US dollars, above the level registered in the previous report. With respect to the credit-to-GDP gap, which measures the sustainability of credit increases, the credit/GDP ratio at the end of the first quarter 2019 stood slightly above its long-term level, generating a positive gap.

As regards the financial soundness indicators, solvency indicators remain at levels that comfortably surpass the minimum capital adequacy requirements. In March 2019, the ratio of core capital to risk weighted assets and contingencies (RWA) stood at 13.2%, and the ratio of regulatory capital to RWA rose to 19.1% during the same period. Likewise, the system's leverage ratio, measured as the ratio of Tier I capital with respect to total assets, stood above the Basel III minimum requirement (3%). On the other hand, profitability has remained at levels similar to those registered in the previous FSR report, with ROE and ROA standing at around 20.2% and 2.4%, respectively.



At the same time, the performed stress tests indicate that the financial system, comprised of banks and financial companies, remains solvent and liquid, following the simulation of external shocks, although there is little likelihood of such occurrences.

Lastly, the payments system has continued to operate normally, in a fluid and efficient manner, reflecting the greater preference that electronic payments instruments are gaining. In this sense, electronic transactions have continued to show an ascending trajectory, while the use of checks for payments has decreased in the recent period.