



# FINANCIAL STABILITY REPORT

NOVEMBER  
2021



**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 publication of the last Financial Stability Report (FSR) in May 2021, the external scenario of relevance for Paraguay has improved as compared to the previous report. In this sense, the greater economic dynamism of the regional trade partners is highlighted, given the moderation of the levels of COVID-19 contagion and the increase of the commodity prices. The increase of the price quotes for soybeans, wheat, meat, and other agricultural commodities relevant to the country's exports is particularly highlighted. However, the price of petroleum has also increased and additional pressures on energy commodities have been registered in the face of energy shortage problems in Asia and Europe; this situation could affect global inflation. International financial conditions are less lax, while the risk perceptions of international investors regarding some countries in the region have increased recently.

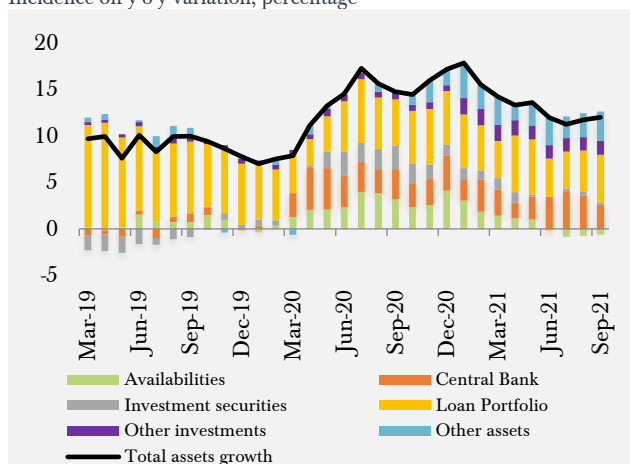
Regarding the domestic scenario, the previous report had highlighted the greater uncertainty about the future dynamism of the economy, in consideration of the worsening of the health crisis due to the high levels of COVID-19 contagion and related deaths, the temporary reestablishment of the restrictive measures for the circulation of the population, and the limited access to vaccines. In that context, it was highlighted that the risks for the financial system could increase. However, in the last few months, economic data have revealed a favorable dynamism in economic activity, associated with a considerable improvement of the health situation, which has allowed a greater reopening of the economy, and therefore a further increased in people's mobility. Looking ahead, it is expected that the financial risks associated with the debt repayment capacity of businesses and households remain limited, as long as the health situation remains under control, and the economic and labor conditions of both individuals and companies continue to recover<sup>2</sup>.

In the local financial system, total assets have continued with good dynamics, although there has been less growth as compared to last year. The loan portfolio, its main component, had exhibited an upward path since May 2020, coinciding with the more accelerated deployment of credit support measures to ameliorate the effects of the health crisis. Even though credit extended in domestic currency showed a certain deceleration in the last months, although it still remains at high y-o-y levels, the better performance of loans extended in foreign currency has contributed to the continued growth of total credit, characterized by positive dynamics, and consistent with the economy's financing needs (Graphs I and II).

**Graph I**

**Assets**

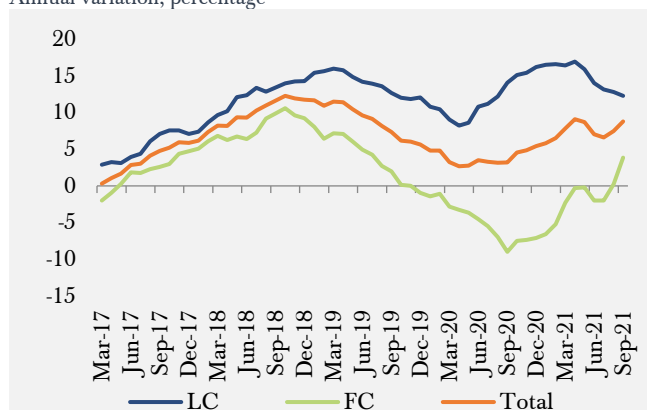
Incidence on y-o-y variation, percentage



**Graph II**

**Loans by currency**

Annual variation, percentage



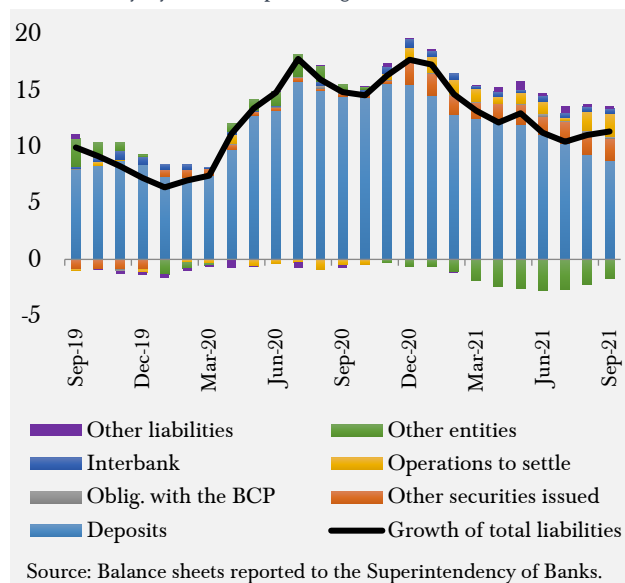
<sup>1</sup> The Spanish version prevails.

<sup>2</sup> More details about the recent evolution of economic activity may be found in the September 2021 IPoM. <https://www.bcp.gov.py/informe-de-politica-monetaria-i14>

Liabilities, after the great dynamism observed during 2020, have been registering a deceleration of their inter-annual rate, due, in part, to the greater comparison base observed in the data of the previous year. The evolution of liabilities is especially related to the performance of deposits, their main component (48% of GDP), which had exhibited a significant increase until March 2021, in aggregate terms. Afterwards, the growth pace of deposits slowed to stand at 11% y-o-y in September 2021. This scenario of greater momentum of deposits during the pandemic has been explained, on one hand, by the supportive measures implemented by the Central Bank of Paraguay (BCP) that provided the liquidity required by the market to face this exceptional situation. On the other hand, depositors who showed a strong preference for sight deposits, due to precautionary reasons, drove this impetus of deposits. In accordance with the lifting of the economic impulse measures, deposits have returned to a level of dynamism that is similar to the one observed in the pre-pandemic period (Graphs III and IV).

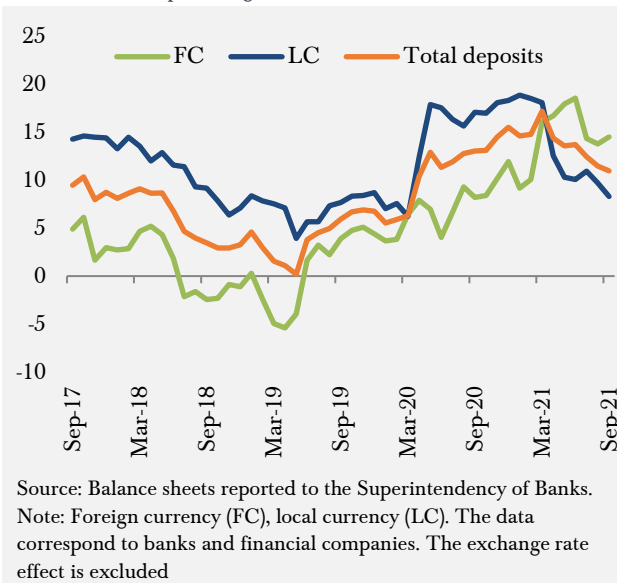
**Graph III**  
**Liabilities**

Incidence on y-o-y variation, percentage



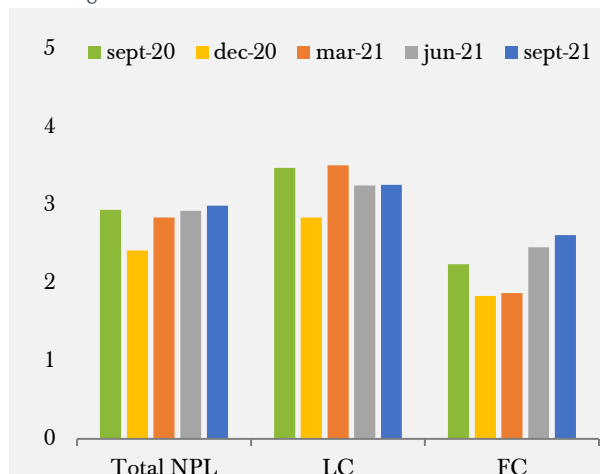
**Graph IV**  
**Deposits by currency**

Annual variation, percentage



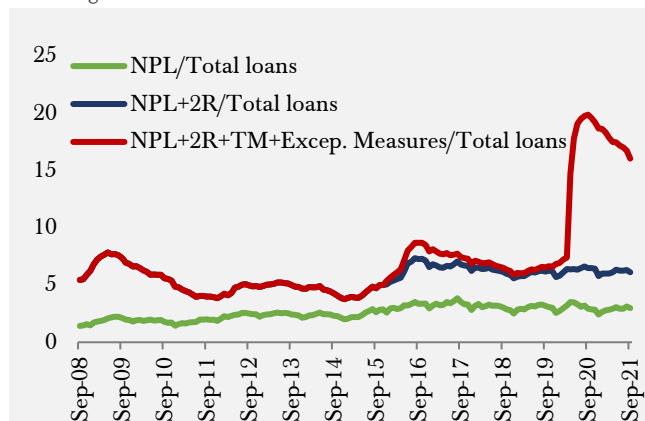
In the context of economic reactivation and with a health situation that is currently under control, the credit risk indicator has remained at limited levels, resulting from the exceptional measures to support credit that were implemented by the BCP during the pandemic. By September 2021, the total non-performing loans ratio stood at 3%, slightly greater in both inter-annual terms and as compared to the data published in the May FSR. The most stressed credit risk measure, which in addition to the non-performing loans includes an important portion of the renegotiated loans portfolio, represented 16% of the financial system's total credit portfolio. The non-performing ratio of the loans that comprise the exceptional credit measures established in response to the COVID-19 pandemic stood above the level of the non-performing ratio of the total portfolio. Regarding credit risks coverage, provisioning represents more than 100% of total non-performing loans (Graphs V and VI).

**Graph 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.

**Graph VI**  
**Credit quality**  
Percentage



Source: Balance sheets reported to the Superintendency of Banks.  
Notes: 1/It only considers the current portfolio of the renegotiated loans. 2/NPL: non-performing loans, 2R: refinanced and restructured loans, TM: transitional measures, Excep.Measures: rescheduling operations COVID-19.

In the local banking system, household debt has represented 7.0% of GDP, a relatively low level as compared to emerging economies (47.8% of GDP). Since the last FSR report, total household debts have increased, while credit quality has deteriorated. The increase in non-performing loans is explained by the fact that some households have yet to recover their capacity to generate income, and therefore to pay their debts, following the adverse impact caused by the health and economic crisis. On the other hand, the business loans extended by banks and financial companies, as a percentage of GDP, stands at a level relatively similar to the one reported in the last FSR (26.5% of GDP). It is important to highlight that corporate debt has registered y-o-y increases in both United States dollars and local currency, although with a slowdown for loans extended in national currency. The NPL-ratio of business loans has increased slightly in inter-annual terms, standing at 2%. This increase is related, in part, to the maturity of loans granted to businesses within the framework of the exceptional COVID-19 measures. However, it is expected that the greater reopening of the economy and the growing mobility of the population will have a positive impact on the recovery of companies' income, allowing them to meet the debts assumed during the pandemic. At the same time, it would facilitate the greater granting of new loans, especially credit extended to the segment of small and medium-sized enterprises (SMEs), in line with both the supportive measures applied by the BCP, and the Paraguayan Guarantee Fund (FOGAPY)<sup>3</sup>.

Since the beginning of the pandemic, and in a context of credit flexibilization measures, the banking sector interest rate spread, in both currencies, has been decreasing gradually in inter-annual terms. However, in a scenario of monetary policy normalization, an increase of the financing costs of banks is expected, which could be shifted to both businesses and households. The holding of other instruments that offer additional financing has offset the liquidity risk resulting from the maturity mismatch. In this regard, the system's liquid assets deposited at the BCP have increased since the last report, although with a lower growth rate due to the gradual withdrawal of the liquidity measures applied during the pandemic<sup>4</sup>.

As regards the financial stability indicators, it is pointed that the financial deepening indicator, measured by the ratio of total credits in relation to GDP, has decreased as compared to the same month in the previous year, standing at 41.2%. On the other hand, deposits represented 49% of annualized GDP by September 2021, a slightly lower figure than reported in the same month of the previous year (50.2%), due, in part, to the lower impulse registered for deposits, following the year 2020 in which deposits showed significant growth rates. Regarding the sources of credit funding,

<sup>3</sup> See box II.

<sup>4</sup> See box I.

these continue to be constituted by deposits, to a large degree, while the external financing of credit, in United States dollars, has been decreasing since the last FSR to represent 15.7% of deposits in dollars. As regards the credit-to-GDP gap indicator, by the second quarter of 2021, the credit to GDP ratio remained above its long-term level, generating a positive gap that is below the level verified in the same quarter of last year.

As regards the solvency indicators, the registered rates have comfortably surpassed the minimum capital adequacy requirements. The ratio of core capital (Tier 1) to risk weighted assets and contingencies (RWA) stood at 15.6% in September 2021, while the ratio of total regulatory capital (Tiers 1 and 2) to RWA stood at 19.4% in the same period, well above the minimum required level (12%). On the other hand, the leverage ratio, measured as the ratio of Tier I capital to total assets, was 9.3% in the third quarter, far above both the Basel minimum requirement (3%) and the level registered a year ago.

Regarding profitability, the ROA and ROE indicators have stood at levels far below those observed in the pre-pandemic period. However, the downward trajectory registered during 2020 and the first months of this year, has been curbed since April 2021. The reduction of financial and services income have been the components that explained, in great measure, the decrease in profitability.

At the same time, the stress tests performed at banks and financial companies indicate that the financial system maintains an adequate solvency position, following the simulation of extreme shocks, although with a low probability of occurrence.

Finally, the payments system has performed normally, in a fluid and efficient manner. Operations carried out through the payment system have increased significantly, continuing with the impulse that has increased since the beginning of the pandemic, given the greater demand for payment instruments that facilitate digital transactions. Looking ahead, on May 23, 2022, specifically, the functioning of the Instantaneous Payments System (SPI) module is foreseen. This system will allow for instant interbank transactions through the SIPAP, 24 hours per day, and seven days per week (SPI 24/7). This important contribution to the improvement of the financial infrastructure will allow Paraguayan families and businesses to make payments or transfers, with immediate accreditation in their accounts, at any time of the day, throughout the entire year.

**Financial Stability Report**  
November 2021