Box 3: Resilience of the Colombian Financial System: Analysis Based on the Recent Period of Banking Stress in the U.S. - Report of the Board of Directors to the Congress of Colombia - July 2023

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Pursuant to Article 5 of Law 31 of 1992, the Board of Directors of Banco de la República (the Central Bank of Colombia) submits a report to the Honorable Congress of Colombia, informing about the performance of the economy and its outlook. This report is submitted twice a year, in March and July, within ten business days following the start date of the sessions of the Congress.

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The U.S. financial system experienced a period of stress during March 2023 in which several regional banks including First Republic Bank, Silicon Valley Bank, Signature Bank, and Silvergate Bank, etc., were affected. The collapse of these institutions had multiple causes and exposed the potential effects of a strong relaxation of the financial regulation to which these institutions were subject. This was reflected in the balance sheet structure of the entities where there was a high exposure to Treasury bonds that were carried on the books as held-to-maturity securities within the assets of these institutions, a position that was mainly funded through demand deposits highly concentrated in U.S. technology companies. On the asset side, these entities held securities that had been devalued as a result of the Federal Reserve (Fed) funds rate hike while, on the liability side, they had demand deposits whose depositors were institutional clients who accounted for a significant amount of funds and for whom there were no restrictions on making withdrawals at any time. In addition, these institutions did not have minimum liquidity requirements measured by the shortterm liquidity risk indicator (LCR) and the net stable funding ratio (NSFR) that are designed to limit exposure to massive withdrawals in periods of stress. These types of regional banks were not subject to compliance with liquidity and capital adequacy standards in accordance with international guidelines, known as the Basel III principles. In the case of the United States, requirements of this type are applicable to the largest financial institutions. The public’s loss of confidence in the respective institutions also led to massive withdrawals which, in turn, led to the insolvency of the affected institutions.

Fuente: https://www.banrep.gov.co/en/publications-research/report-board-directors-congress/box-3-july-2023