

Decomposition of Non-Performing Loans Dynamics into a Debt-Servicing Capacity and a Risk Taking Indicator

QUARTERLY REVIEW OF ECONOMICS AND FINANCE

DOI:

<https://doi.org/10.1016/j.qref.2024.04.007>

Publicado:

Sábado, 18 Mayo 2024

Authors:

Santiago Gamba-Santamaría^e,

[Luis Fernando Melo-Velandia^a](#),

Camilo Orozco-Vanegas^a

Ver más

^eExterno

^aBanco de la República, Colombia

Clasificación JEL:

C13, G21

[Descargar documento](#)

Lo más reciente

[Precios de materias primas, poder de mercado y el aumento de la inflación de alimentos procesados en países en desarrollo: evidencia para Colombia](#)

Jorge Florez-Acosta, Margarita María Gáfaró-González, Alejandra González-Ramírez, Juan Sebastián Vélez-Velásquez

[Hechos Complementarios sobre el Ciclo Económico en Colombia: Una Perspectiva desde el Ciclo de Crecimiento](#)

Diego Vásquez-Escobar

[Comercio exterior de servicios en Colombia 1994-2024: Un análisis descriptivo](#)

Sandra Isabel Salamanca-Gil, Enrique Montes-Urbe, Juan Sebastián Silva-Rodríguez

[Otras Publicaciones](#)

Using Colombian credit vintage data, we decompose non-performing loans into two main components: one capturing the evolution of borrowers' payment capacity and another reflecting changes in the credit risk assumed by banks when granting loans. We employ intrinsic estimators and penalized regression techniques to address the perfect multicollinearity inherent in the model. Our analysis reveals that these two components have evolved differently over time and that they interact with the real and credit cycles distinctively. In particular, we find that a favorable economic environment and loose financial conditions improve the payment capacity of borrowers to meet their obligations, but coincide with increased risk-taking by financial institutions. Finally, we advocate for the adoption of this decomposition as a policy tool, easily applicable by financial and economic—
Decomposition of Non-Performing Loans Dynamics into a Debt-Servicing Capacity and a Risk Taking Indicator

Decomposition of Non-Performing Loans Dynamics into a Debt-Servicing Capacity and a Risk Taking Indicator – Portal de Investigaciones Económicas
authorities with access to a continuous flow of credit vintage data. This methodology facilitates the identification of credit risk origins, thereby informing economic policies aimed at mitigating systemic financial risks.