



Colombia

Promoting financial development in the context of the Middle-Income Trap

Overview

Between 2011 and 2017, the economy has grown on average

3.8% annually, while the LAC average is **1.7%**

Banking sector overview:



Public banks have a **marginal presence**



Foreign operations in Central America **are increasing**



Relatively concentrated banking sector **top 5 banks 78%** of market share



Partially compliant with **Basel II** (roadmap to converge with Basel III in 2018)

ROE: **11%**

Tier 1: **10.7%**

NPL ratio: **5%**

Financial Access

Similar level of bank branches: **24.3** per **100,000** adults as average of HI economies: **26.4**

Banking correspondents system has improved access in rural areas: **283.4** per **100,000** adults

DiGiX: **53rd** (out of 100 countries) Higher position than its peers in LATAM

Colombia covers **11.9%** of the fintech market in LATAM

Improvements in financial inclusion MIFI: **36th** position (out of 137 countries)

Low access to capital markets: **1.4** listed companies per **1,000,000** people

Financial Depth



Good levels of financial depth relative to its peers.

Credit to GDP: **44.5%**



Importance of deposits for funding, but they have room for improvement: **39.3%** of GDP



Stock market turnover ratio in line with peers **11.9%**



Increasing inflows of foreign investment to debt markets

NFCs **5.8%** of GDP and financial firms: **3.8%** of GDP

Efficiency and Stability of the Financial System



Lower profitability than its peers, converging to HI levels

ROA: **1.5%**



Decreasing credit overhead costs to total assets:

3.3%

Institutional factors

Colombia's indicators are in some cases above average

Ease of doing business (Average HI: 33 out of 190)

59th

Registering property (Average HI: 66 out of 190)

60th

Getting credit (Average HI: 67 out of 190)

2th

Enforcing contracts (Average HI: 47 out of 190)

177th

Resolving insolvency (Average HI: 22 out of 190)

33th

Recommendations

- **Adapt the regulatory framework to the digital transformation of financial services** to facilitate the development of the fintech ecosystem
- **Introduce simplified accounts** for small companies
- **Firms could potentially benefit from a larger exposure to capital markets** and debt markets as alternative sources of financing
- **Reduce limits to credit depth** such as debit taxes on savings accounts, interest rates caps and direct lending
- **Maintain / accelerate** efficiency improvements
- **Create a multipurpose cadastre** to reduce the informality of land registries and protect property rights
- **Reduce bureaucracy involved in the enforcement of contracts** to reduce its high costs and risk

For further details:

Policy priorities to promote financial development in the context of the Middle-Income Trap: The cases of Argentina, Colombia, Mexico and Peru