

Liquidity stress testing for the Bolivian financial system

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Abstract

Liquidity risk stress testing allows to evaluate the capacity of the individual financial entities or the financial system as a whole, to withstand extreme but feasible shocks, and it constitutes a mean to assess weaknesses in the system and the effectiveness of the facilities they currently have access to meet their liquidity needs. In this way, it can help authorities to identify priority actions to mitigate liquidity risk.

In the present document, we show a stress test for the Bolivian case through the design of two adverse scenarios based on the past experience of bank runs. The results are compared with a reverse stress testing.

The findings highlight the resilience of the financial system to the raised liquidity shocks, especially those of banking institutions due to the greater proportion of their financial assets admitted through the liquidity windows of the Central Bank of Bolivia (CBB).

Clasificación JEL: C10, G01, G10, G21

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