# Financial Stability Report - Second Half of 2021

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The main purpose of these documents is to provide semiannual information on the vulnerabilities and risks of the financial system. The views presented and potential errors are the sole responsibility of the authors and their contents do not compromise the Board of Directors of *Banco de la República*

AUTHORS AND/OR EDITORS Office of the Deputy Technical Governor Office for Monetary Operations and International Investments Financial Stability Department Liquidity Support and Risk Control Section Systemic Risk Surveillance Section Publication Date: Friday, 30 of September 2022
Banco de la República's main objective is to preserve the purchasing power of the currency in coordination with the general economic policy that is intended to stabilize output and employment at long-term sustainable levels.

Properly meeting the goal assigned to the Bank by the 1991 Constitution critically depends on preserving financial stability. This is understood to be a general condition in which the financial system assesses and manages the financial risks in a way that facilitates the economy's performance and efficient allocation of resources while, at the same time, it is able to, on its own, absorb, dissipate, and mitigate the shocks that may arise as a result of adverse events.

This Financial Stability Report meets the goal of giving Banco de la República's diagnosis of the financial system's and its debtors' recent performance as well as of the main risks and vulnerabilities that could affect the stability of the Colombian economy. In this way, participants in financial markets and the public are being informed, and public debate on trends and risks affecting the system is being encouraged. The results presented here also serve the monetary authority as a basis for making decisions that will enhance financial stability in the general context of its objectives.

In recent months, several positive aspects of the financial system have preserved a remarkable degree of continuity and stability: the liquidity and capital adequacy of financial institutions have remained well above the regulatory minimums at both the individual and consolidated levels, the coverage of past-due loans by loan-loss provisions remains high, and the financial markets for public and private debt and stocks have continued to function normally. At the same time, a surge in all the types of loan portfolios, a sharp downturn in the non-performing loan portfolio, and a rise in the profitability of credit institutions can be seen for the first time since the beginning of the pandemic.

In line with the general recovery of the economy, the main vulnerability to the stability of the Colombian financial system identified in the previous edition—uncertainty about changes in the non-performing loans portfolio—has receded and remains on a downward trend. In this edition, the main source of vulnerability identified for financial stability in the short term is the system's exposure to sudden changes in international financial conditions; the results presented in this Report indicate that the system is sufficiently resilient to such scenarios.

In compliance with its constitutional objectives and in coordination with the financial system's security network, Banco de la República will continue to closely monitor the outlook for financial stability at this juncture and will make the decisions necessary to ensure the proper functioning of the economy, facilitate the flow of sufficient

credit and liquidity resources, and further the smooth functioning of the payment system.

**Leonardo Villar Gómez, Governor**

Boxes

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