Financial Stability Report - Second Half of 2022

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Banco de la República's main goal 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 evaluates and manages the financial risks in a way that facilitates the suitable performance of the economy and efficient allocation of resources while, at the same time, it is able to absorb, dissipate, and mitigate the appearance of risks 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. The Report is intended to inform the public and the participants in the financial markets about the trends and risks affecting the system and it also intends to promote public debate on this subject. The results presented here also serve as a basis for the monetary authority to assess the effects and risks of monetary policy at the current situation and to adopt measures under its purview to promote financial stability.

The analysis presented in this edition of the Report leads to the conclusion that there has been a strong credit trend in Colombia in the last few months that is consistent with the strength of economic activity. Credit continues to grow (in all its categories and especially in consumer loans) while past-due and risky loans continue to decline for the aggregate portfolio. In general terms, the favorable performance of credit establishments (CIs) in a context of tighter financial conditions and greater volatility in financial markets continues to reflect the soundness and stability of the Colombian financial system. In spite of exhibiting a recent decline, CIs are keeping liquidity and capital adequacy indicators well above the regulatory minimums. Its aggregate profitability, in turn, returned to the levels seen before the pandemic shock and showed a positive performance in financial intermediation activities. With respect to non-bank financial institutions, the recent volatility of the financial markets has led to reductions in their level of assets due to the devaluations in their investment portfolios. This has been reflected mainly in reduced profitability for Trust Companies (TC) and Pension Fund Managers (PFM).

In line with the positive performance of economic activity in 2021 and so far in 2022, the rapid surge in household loans in Colombia, especially consumer loans together with the high levels of household debt to disposable income ratio is still considered a source of vulnerability for the stability of the Colombian financial system just as it was in the previous edition of this Report (see section 2.2.2). In addition, given the large current account deficit and the foreign financing needs, the exposure of the Colombian economy and financial institutions to changes in financial conditions persists in a global environment of high uncertainty. In any case, the results presented in this Report indicate that the financial system has shown to be resilient to the materialization of adverse scenarios (see Chapter 3).

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 financial stability outlook at this juncture and will make the necessary decisions to ensure the proper functioning of the economy, facilitate the sufficient flow of credit and liquidity resources, and promote the smooth functioning of the payment system.

Leonardo Villar Gomez
Governor

Boxes

- Box 1: Insurance Industry Performance During the Covid-19 Pandemic
  Gualtero-Briceño, Daniela and Pirateque-Niño, Javier Eliecer
- Box 2: Recent Trends in the Financial Position of Household
  Gómez-Molina, Andrés Camilo; Mariño-Martínez, Juan Sebastián and Osorio-Rodríguez, Daniel
- Box 3: A Description of the Foreign Exchange Risk of Real Sector Firms in Colombia in 2021
  Carmona-Duarte, Álvaro David; Martínez-Osorio, Adrián and Niño-Cuervo, Jorge

Fuente: https://d1b4gd4m8561gs.cloudfront.net/en/publications-researches/financial-stability-reports/second-half-2022