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Elements of both supply and demand interact during a financial crisis, which explains the precarious growth in credit. Nonetheless, it is important that demand-side incentives be generated ex post. These also help to reactivate loans by fueling the supply of credit. The latter usually remains depressed due to aspects that become relevant during and after a crisis, such as low bank capitalization and the increased risk aversion banks experience with a high rate of non-performing and doubtful loans. This situation can balance out when banks find investment alternatives in the financial market that might not provide a great deal of return, but keep risks low compared to the risk of extending credit at that particular moment.

Clearly, after one of the worse financial crises in times recent (1998-1999), a number of elements emerged in Colombia that did, in fact, encourage the demand for credit. The reduction in interest rates at a time of generous liquidity, the growth in domestic and foreign investment, and good export performance are some examples, all of which have stimulated the growth in revenue. Moreover, the behavior of agents in the economy, particularly households, shows a low indebtedness level. This surely allowed for a certain amount of momentum in bank loans, which helped put the Colombian economy back on the path to growth. However, to achieve the growth required, for example, to lower the jobless rate and to provide greater well-being, we must identify the barriers might explain the slow growth in loans, especially mortgage loans, and determine if these barriers remain on the supply side.

Therefore, we must find out if, after almost five years, there still is evidence of a credit crunch, and if the factors of the crisis period remain in play, or if others have emerged to preserve this phenomenon. Three factors can be identified to explain the limited growth in loans. First of all, credit is limited because financial institutions do not have the capacity to loan. In other words, they are forced to reduce or limit their credit supply because of capital and/or deposit-taking constraints. Aversion to extending loans is a second factor. For example, although financial institutions may have the capacity to loan, they prefer not to. This is because of problems in identifying clients with high-risk and/or due to a special preference for less-profitable but highly liquid assets that imply little risk of default (e.g. government bonds). A third factor is the decline in lending because of less demand as a result of less economic activity. In response, many companies close down because of a steady decline in sales, or simply decide to shift the source of their liabilities from loans to the issue and sale of stocks or bonds.

The objective of this article is to evaluate the first two factors (which deal with supply) as essential elements of the credit crunch. The assumption is that they might have prevailed after the financial crisis in the late 1990s, creating temporary imbalances between credit supply and demand that might have been absorbed through quantities rather than prices (interest rates), considering the good liquidity environment and the decline interest rates registered since then.