Conclusions of the 82nd Session of the Financial System Coordination and Monitoring Committee

At the meeting held on Tuesday between the Minister of Finance and Public Credit, the Governor of *Banco de la República* (the Central Bank of Colombia), the Financial Superintendent, and the Director of the Financial Institutions Guarantee Fund (Fogafín in Spanish), together with the Director in charge of Financial Regulatory Unit (URF in Spanish), the main trends and perspectives of the leading indicators in credit, market, and liquidity risks were analyzed.

Consolidating a Stable Financial Environment

The members of the Committee highlighted the consolidation dynamics shown by the financial system in recent years. During the pandemic, and despite the shocks, resilience and adaptation allowed to maintain credit supply, ensure an orderly adjustment in credit risk, guarantee access to saver's funds without setbacks, and maintain continuity in the provision of financial services. This dynamic consolidation was supported by a coordinated and timely implementation of measures established by the economic authorities[1], which was reflected in solvency and liquidity levels of 17.21%, and 218.5%, respectively for the year 2020, significantly higher than the regulatory minimums???????[2] This also led to a positive real loan portfolio growth of 2.24%, a sustainable quality risk indicator of 5.0%, and a capitalization commitment of 69.8% of the profits obtained during the year.

The members of the Committee highlighted the financial system's capacity to continue supporting sustainable growth in line with the economic reactivation process that began in 2021. Therefore, even though credit risk remained the main focus of the Committee, the results of the system and the effects of the measures taken by the authorities confirm that, at the close of 2021, the capital capacity and adequate risk management remained solid. This resulted in solvency and liquidity levels of 21.97% and 205.2%, respectively, a higher real growth of the total loan portfolio (4.6%), full recognition of deterioration, and an orderly convergence of the loan portfolio quality indicator to 3.95%, with a commitment of profit capitalization that remained at levels above 63.8% of the 2021 fiscal year profits (COP$16.1 trillion).

For the year 2022 to April, as part of the permanent monitoring of macroeconomic conditions and their effects on the stability of the financial system, the Committee recognizes that the reactivation process continues, and reaffirm its diagnosis on stability based on the behavior of solvency levels (17.93%) and liquidity management (195.09%), which has allowed the flow of financing to households and firms to remain positive, with particular momentum in the consumer loan portfolio. Finally, they highlight the system's capacity to manage the risks derived from financial markets' volatility.

Risks Trends

Supported by a solid and coordinated institutional architecture and by excellent results in risk assessments in recent years, particularly in the indicators exhibited by the financial system during 2022, the Committee evaluated the potential risks derived from a situation marked by exogenous factors, such as the normalization of stimulus measures at the global level, market volatility, and endogenous factors such as inflation behavior, among others, highlighting:

- The need to monitor the real growth rate of the consumer loan portfolio (9.39%[3]) to promote its sustainability in the medium and long term.

- The opportunity to implement measures to follow up on the household debt service ratio to identify situations that may affect any positive performance of the quality indicators currently exhibited by the household loan portfolio.
- The need to continue monitoring the effects of the local international environment on the behavior of market liquidity, maintaining the permanent coordination of the economic authorities. The aim is to continue ensuring the confidence and stability of the financial system in the face of a volatile situation.

Conclusions

The members of the Committee concluded that the Colombian banking system has shown in recent years a capital capacity not only to confront the exogenous risks faced by the financial system but also to maintain continuity in the supply of products and services to firms and households, according to the demand of these agents.

Accordingly, and as a result of the most recent macroeconomic events, they consider appropriate to closely monitor the growth trends of the consumer loan portfolio, household debt, as well as the liquidity flow of the industry to foresee shocks that may affect financial stability, and to take measures in a coordinated fashion, if necessary.

For more details on the main trends of the financial system, click on the following links:

Financial System Update Report

Financial Stability Report

[1] See Rox 3 - Financial Stability Report Banco de la República, First Semester of 2020

See Office of the Financial Superintendent reports on Covid measures.

Financial System Update Report, March 2020

Financial System Update Report, June 2020

Financial System Update Report, November 2020

Financial System Update Report, December 2020

Financial System Update Report, January 2021

See Box 1.2 Medium-Term Fiscal Framework 2022

[2] Regulatory minimum of total solvency: 9.0%, regulatory minimum of the Short-Term Liquidity Risk Indicator (LRI) 100%.

[3] Real annual growth in April 2022.

Link
Financial System Update Report
Financial Stability Report
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