Banco de la República reduced the reserve requirement for deposits to contribute to the process of financial deepening of the economy

As part of its Strategic Plan for 2022-2025 and considering the existence of a robust regulation for credit institutions' liquidity risk, *Banco de la República* (the Central Bank of *Colombia*, BANREP) reduced the reserve requirement for deposits to contribute to the process of financial deepening of the economy.

In its ordinary session today, the Board of Directors of *Banco de la República* decided to reduce the reserve requirement as follows:

- A one-percentage point decrease in the reserve requirement for liabilities with a current 8% requirement (mainly checking and savings accounts) I.e., the reserve requirement for these liabilities goes from 8% to 7%.
- A one-percentage point decrease in the reserve requirement for liabilities with a current 3.5% requirement (CDs at less than 18 months). I.e., the reserve requirement for these liabilities goes from 3.5% to 2.5%.

It is estimated that with the decrease of the reserve requirements, bank reserves will be reduced by approximately 6 trillion pesos.

The reserve requirement has been a relatively simple policy instrument, of general application, and closely related to the basic structure of financial intermediation. These characteristics have historically provided the reserve requirement various roles, which have evolved at the pace of development of the financial system and of the changes on the way in which economic policy is designed and implemented. The reserve requirement has been used to mitigate the banks' liquidity risk and as a monetary policy instrument focused on controlling the growth of broad monetary aggregates and credit. Advances in the regulation of liquidity risk and changes in monetary policy strategy have caused the reserve requirements to lose relevance in these roles.

The decision considered the management of monetary policy based on the inflation target strategy, in which the policy interest rate is the main instrument, together with the evolution and implementation of regulatory standards that mitigate credit institutions' liquidity risk. Particularly, the application of the international standards set forth by the Basel Committee on Banking Supervision (BCBS) by the Financial Superintendency of *Colombia* has been of great importance. The Liquidity Risk Indicator (IRL in Spanish) has reduced the likelihood of short-term liquidity shocks with prospective criteria, and the Net Stable Funding Ratio (CFEN, in Spanish) has induced the procurement of an adequate structural funding by intermediaries. In this new context, the reserve requirement was defined considering the intra-day liquidity needs of participants in the high-value payment system so that payments from the economy continue to flow uninterruptedly. By lowering the costs of intermediation, the reduction of the reserve requirement contributes to the financial deepening process of the economy.

Banco de la República will continue to perform its liquidity operations so that the short-term market interest rate remains in line with the policy interest rate.

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