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Box 2: Countercyclical Provisioning Scheme: Credit Cycle Adjustment Considerations - Financial Stability Report - Second Half of 2024

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Credit institutions (CIs) are exposed to credit risk, which can be understood as the possibility of incurring losses arising from a debtor or counterparty defaulting on its obligations. To mitigate this risk, CIs must constitute provisions based on the balance of loan disbursements loan portfolio and adjust its level based on the credit risk of the latter. To this end, the Financial Superintendency of Colombia (SFC) establishes, within its regulatory framework, the rules that the CIs must use for the constitution and adjustments of the provisions of the different types of loans.

A fundamental part of this framework is the countercyclical provisions, which have been in operation since 2007 for the commercial loan portfolio and since 2008 for consumer loans, representing approximately 80% of the total loan portfolio. This mechanism allows CIs to accumulate more provisions at times when credit risk does not materialize (cumulative phase) and use this buffer to smooth out the expense on provisions that can be generated in phases of lower growth and higher non-performing loans in the credit cycle (de-accumulative phase).

Fuente: https://www.banrep.gov.co/en/publications-research/financial-stability-report/box-2-second-half-2024