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Abstract

Following the pandemic, the Colombia’s financial system experienced a pronounced credit cycle, with significant real growth in consumer loans followed by a deceleration from late 2022. This paper uses granular loan-level data to analyse how financial intermediaries adjusted the credit risk composition of new loans throughout this cycle. It examines the implications of these shifts for loan supply dynamics and financial conditions. Additionally, the study explores the interaction between credit risk composition and monetary policy transmission during the 2021–24 period. As monetary tightening led to rising lending rates, changes in loan composition—particularly the increased share of riskier borrowers—amplified the observed transmission of policy rates to average lending costs, especially in the consumer credit segment. The findings highlight the importance of credit risk dynamics in assessing monetary policy effectiveness and demonstrate the value of disaggregated data in understanding macro-financial conditions.

> **"This document illustrates how changes in the risk composition of the portfolio amplified the transmission of monetary policy to average loan interest rates throughout the credit cycle and demonstrates the value of disaggregated data for understanding the macro-financial conditions of the economy."**