Financial Stability Report - First Half of 2021

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The Report is published every six months, in May and November. This Report is accompanied by other special reports on financial stability published in June and December, which focus on topics of interest in this area.

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The main policy goal of *Banco de la República* is to preserve the purchasing power of the currency in coordination with the general economic policy that is intended to stabilize output and employment at long-term sustainable levels.

Properly meeting the goal assigned to the Bank by the 1991 Constitution critically depends on preserving financial stability. This is understood to be a general condition in which the financial system assesses and manages the financial risks in a way that facilitates the performance of the economy and the efficient allocation of resources while, at the same time, it is able to, on its own, absorb, dissipate, and mitigate the appearance of risks that may arise as a result of adverse events.

This Financial Stability Report presents *Banco de la República*'s diagnosis of the financial system's (institutions, markets, and infrastructure) and its debtors' recent performance as well as of the main risks and vulnerabilities that could affect the stability of the Colombian economy. With this report, financial market participants and the public are being informed and public debate on trends and risks affecting the system is being encouraged. The results presented here also serve the monetary authority as a basis for making decisions that will enhance financial stability in the general context of its objectives.

The current situation of financial institutions is evidence of their ability to manage risks and absorb and mitigate the shocks that have affected the Colombian economy since March 2020 in the context of the pandemic. Over the course of recent months, institutions have preserved their liquidity and capital adequacy levels and increased their loan-loss provisions, thus improving risk coverage despite the deteriorating environment. The public, in turn, continues to have confidence in the stability of the system, and financial markets managed to stabilize following *Banco de la República*'s policy response despite the new waves of contagion and extensions of the health emergency.

In this context, the Colombian financial system's main source of vulnerability in the short term is the high uncertainty that still exists regarding the performance of the economy and the non-performing loan portfolio in the near future. In any case, financial institutions still have the ability to absorb and mitigate additional disruptions of the general economic situation.

In compliance with its constitutional objectives and in coordination with the financial system's security network, *Banco de la República* will continue to closely monitor the outlook for financial stability at this juncture and will make the decisions that are necessary to ensure the proper functioning of the economy, facilitate the flow of sufficient credit and liquidity resources, and further the smooth functioning of the payment system.

Leonardo Villar Gómez, Governor

Boxes

- Box 1 - Commercial Loans Provisions by Company Size

Wilmar Cabrera, Santiago Gamba and Camilo Gómez

- Box 2 - Alternative Indicators to Measure Historical Rates of Business Start-ups and Closures in Colombia

Julián David Castañeda, Felipe Clavijo Ramírez and Camilo Eduardo Sánchez

Fuente: https://www.banrep.gov.co/en/publications-research/financial-stability-report/first-half-2021