

Conclusions of the 85th Session of the Committee for Coordination and Monitoring of the Financial System

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The financial system started 2023 with adequate performance and prudential indicators. The measures adopted in the last quarter of 2022 have prepared the system to absorb the risks that could materialize throughout the year. Hence, the behavior of the prudential levels of capital adequacy (solvency ratio), short-term liquidity (Liquidity Coverage Ratio, LCR), and stable funding (Net Stable Funding Ratio, NSFR) indicators, which at the end of January 2023 registered levels of 18.2% [1], 187.2% [2], and 109% [3], respectively, was satisfactory. Similarly, the behavior of the main loan portfolio aggregates shows that the credit supply remains on a positive growth path (2.51% real annual growth) because of the greater contribution of the corporate loan portfolio. In contrast, a deceleration of the consumer loan portfolio was observed. Non-performing loans indicator stood at 3.95%, similar to the levels reported at the end of 2022.

Following the overall analysis of the system's main leading indicators and the results of the financial system's risk perception surveys, the committee concluded that the risk factors identified and monitored throughout 2022 persist at the beginning of 2023, mainly in terms of consumer credit and household's indebtedness. These justified the policy decision to promote the strengthening of forward-looking provisions and contain the effects of potential deterioration of loan portfolios in 2023 in an environment of lower economic growth and higher inflation.

Analysis of Indicators and Risks for 2023

- The consumer loan portfolio continues to moderate its growth rate in an environment of tighter financial conditions. However, the behavior of the household debt service ratio and leverage levels continue to be relevant elements in the monitoring of the loan portfolio for 2023.
- Monitoring through supervision continues for the housing loan portfolio, which represents close to 16% of the system's total loan portfolio; of this total, 17.1% is inflation linked (Real Value Unit -UVR).

Credit institutions are expected to continue adopting active strategies to manage potential risks and mitigate the impact of inflation.

- Liquidity risk has been adequately managed thanks to the gradual convergence to Basel III standards. Given the behavior of maturities and sensitivity of the liability items to rate movements, the implementation of the instructions on Trading Book Interest Rate Risk continues to be monitored.
- Regarding the end of the NSFR convergence period established in March 2023, the authorities highlighted the gradual and proportional nature of its application, which allows foreseeing that institutions will be ready to comply with the full implementation of the indicator. This measure provides a stable funding profile for the composition of the assets of credit institutions.
- The availability of external liquidity for the financial system as of December 2022 showed an improvement compared to the previous quarter, without representing a vulnerability for the system's stability.

Conclusions

The members of the Committee concluded that the leading indicators of the financial system at the beginning of 2023 coincide with the expectations and risk analysis performed in 2022. The risk factors identified and the

preventive measures adopted at the end of 2022, such as External Circular Letter 026, allows absorbing a potential materialization of risks in 2023.

For more details on the main trends in the financial system, see the following reports:

Financial System Update Report

Financial Stability Report