Conclusions of the 86th Session of the Financial System Coordination and Monitoring Committee

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During the 86th session of the Financial System Coordination and Monitoring Committee, held today between the Minister of Finance and Public Credit, the Governor of *Banco de la República* (the Central Bank of Colombia), the Financial Superintendent, and the Director of the Financial Institutions Guarantee Fund (Fogafín in Spanish), together with the acting Director of the Financial Regulatory Unit (URF in Spanish), the data and main trends of the leading indicators of the financial system in the first half of 2023, and the outlook for the rest of the year were analyzed.

Financial intermediation has adjusted in an orderly manner to a macroeconomic environment characterized by a slowdown in economic activity and a gradual reduction in inflation. After the joint analysis of the leading indicators of the financial system, the conclusions of the different surveys, and the results of the stress tests, the committee concluded that some risk factors identified and monitored for consumer credit and high household debt persist, although the financial system remains highly resilient. In addition, as economic activity indicators evolve, it is possible to observe an increase in sectoral risk in corporate and commercial loans.

The performance of the main portfolio aggregates shows that the portfolio continues on a deceleration path mainly explained by consumer loans and, to a lesser extent, by household and commercial loans. Supervision has sought to strengthen prospective risk management mechanisms in the institutions by monitoring sectoral performance indicators and adopting methodologies that allow measuring the expected impairment of the modality. The portfolio impairment indicator due to delinquency stood at 4.6%, a higher level than the one reported at the end of 2022 (3.95%), but which has been absorbed without difficulty through the corresponding provisions and the equity support available to financial institutions, following the regulations and the supervision exercised over them.
Prudential measures accompanied by a careful origination process by financial institutions and tighter financial conditions allow us to expect that the portfolio growth adjustment process will continue in an orderly manner.

This is reflected in the behavior of the prudential levels of the solvency, short-term liquidity, and stable funding indicators, which at the end of May 2023 recorded levels of 17.7%, 201.4%, and 108.5%, respectively, all of them far above the established regulatory minimums. In the aggregate, credit institutions have solvency levels that allow them to face adverse exchange rate, interest rate, and economic slowdown scenarios.

The profitability of credit institutions has reduced from 1.6% to 1.1% between December 2022 and May 2023. This decrease is in line with the greater impairment of the consumer portfolio and the impact on the net interest margin, due to pressures on the cost of funding.

As anticipated in the previous session, the consumer portfolio moderated its growth rate in an environment of tighter financial conditions.

Conclusions
The Committee concluded that the leading indicators of the financial system, so far in 2023 through May, are in line with the expectations and risk analysis performed in 2022 and the first quarter of 2023. Current regulations, good regulatory practices, the use of a monetary policy that helps stabilize the credit cycle, as well as the

existing macroprudential policy framework and the supervisory measures adopted to promote the strengthening of risk management and loss absorption mechanisms, allow credit institutions to mitigate the impact of the portfolio impairment observed throughout 2023, and the foreseeable risks for the remainder of the year.

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

Financial Stability Report
Financial System Update (Only in Spanish)

Fuente: https://www.banrep.gov.co/en/news/news-updates/conclusions-86-session-financial-system-committee