Conclusions of the 89th Session of the Financial System Coordination and Monitoring Committee

During the 89th session of the Financial System Coordination and Monitoring Committee, held this Wednesday between the Minister of Finance and Public Credit, the Governor of *Banco de la República* (the Central Bank of Colombia), the Financial Superintendent, the Director of the Financial Institutions Guarantee Fund (Fogafín in Spanish), and the Director of the Financial Regulatory Unit (URF in Spanish), the main trends of the leading indicators of the financial system at the beginning of 2024 were analyzed.

Main indicators reviewed during the session

As of February 2024, credit institutions continue to show adequate prudential indicators and are above the regulatory minimums that would allow them to absorb an eventual materialization of risks.

Credit dynamics remain in the adjustment process and are consistent with the business cycle, where the commercial and consumer types of loan portfolios continue to exhibit negative real annual growth rates. In contrast, microcredit continues to show positive dynamics. Housing loans, in turn, showed signs of recovery at the beginning of 2024, with a real annual growth rate of 1.3%.

As for credit risk, there was greater materialization, particularly in microcredit and consumer type of loans. In February 2024, the total non-performing loan portfolio indicator, as a ratio of the portfolio balance, stood at 5.12%. However, the coverage level of the non-performing loan portfolio through provisions remains above 100%.

The delinquency and risk indicators of the consumer portfolio remain at high levels but have been stable in recent months. Households' financial burden remained stable while their savings levels recovered.

At the beginning of 2024, the profitability of credit institutions continued with a downward trend after exhibiting high levels in previous years. This is mainly explained by the higher expense in provisions and the fall in the net interest margin, in line with observations from the previous year.

Credit institutions continue to maintain capital and liquidity levels above regulatory minimums. Adequate regulation and supervision, along with prudent performance by financial institutions, have allowed the establishment of solid solvency and liquidity levels over time. The authorities emphasized the importance of institutions maintaining this soundness, given the materialization of some credit risks mentioned above.

The members of the Committee also discussed the effects of Law 2157 of 2021, the "Ley de borrón y cuenta nueva" ("Clean Slate Bill" in English) on the payment of obligations of financial institution debtors and recent initiatives that reduce the information available on their payment habits. The members agreed on the disadvantages that these measures could have on debtors' payment cultures and the functioning of the credit market.

Conclusions

Based on the joint analysis of several indicators, the Committee concluded that the financial system's stability remains strong during the adjustment process of the Colombian economy. They also pointed out that the leading indicators of the financial system so far in 2024, as of the February cut-off, match the expectations and risk analysis performed since the end of the previous year. There are still some risk factors that, added to a slow recovery in the credits dynamics, have led to prioritizing supervisory activities and monitoring exercises on the management carried out by the institutions, as well as their equity capacity to face different scenarios. The current regulation, the existing macro-prudential policy framework, and the supervisory measures adopted to promote the strengthening of risk management allow credit institutions to mitigate the impact of the portfolio impairment observed and the foreseeable risks for this year.

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

- Financial Stability Report (Only Available in Spanish)
- Financial System Update Report (Only Available in Spanish)

Link

Reporte de Estabilidad Financiera (Only Available in Spanish) Informe de Actualidad del Sistema Financiero (Only Available in Spanish)

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