Box 3: How Can Movements in the Interest Rates Structure Affect the Profitability of Credit Institutions? - Report of the Board of Directors to the Congress of Colombia, July 2026

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Pursuant to Article 5 of Law 31 of 1992, the Board of Directors of Banco de la República (the Central Bank of Colombia) submits a report to the Honorable Congress of Colombia, informing about the performance of the economy and its outlook. This report is submitted twice a year, in March and July, within ten business days following the start date of the sessions of the Congress.

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In Colombia, credit institutions (CIs) are financial institutions responsible for channeling funds raised from the public toward lending activities and investment operations. In carrying out this financial intermediation function, CIs are exposed to the materialization of various risks, which may be generated or exacerbated by changes in interest rates. For this reason, *Banco de la República* assesses the potential impacts that changes in the structure of interest rates (i.e., short-, medium-, and long-term rates) may have on the profitability and capital soundness of intermediaries through continuous monitoring exercises presented in the *Financial Stability Report*. These assess how the materialization of different scenarios could affect the operations of CIs through various transmission channels, enabling the early identification of vulnerabilities. This is essential to prevent stress situations in which severe shocks can erode capital levels and constrain the institutions' intermediation capacity.

This assessment is particularly relevant in the current context, characterized by recent increases in the term structure of interest rates in the economy. Indeed, various local and external macro-financial factors have a differentiated impact across the different maturities of this structure. In the short term, interest rates are influenced mainly by inflationary pressures, movements in the monetary policy rate, and expectations regarding its future path. In the medium- and long-term tranches, changes in global financial conditions have had an impact, with uncertainty associated with geopolitical conflicts prevailing. Interest rates have also been affected to a greater extent by developments in the local3 fiscal situation.

In this context, a scenario of higher interest rates across the entire interest rate structure could lead to a decline in the net interest of these institutions, that is, the difference between interest income lending and investment activities and expenses associated with the payment of interest on the deposits they manage and financial obligations they owe. This reduction could materialize mainly through three transmission channels. The first depends directly on the sensitivity of each intermediary's financial income and expenses to movements in interest rates in banking intermediation activities. The second corresponds to the higher expenses and losses that these institutions could potentially incur as a result of a deterioration in their debtors' creditworthiness. Finally, the third channel corresponds to the potential decline in the investment portfolio, which, in the case of CIs, is concentrated particularly in public debt instruments (TES).

Therefore, the purpose of this box is to characterize the transmission channels described above and to reference some exercises used to analyze the impacts of an increase in the interest rate structure on the intermediation margin and profitability of credit intermediaries. The results of these analyses suggest that, in aggregate terms,

CIs have sufficient capital to absorb hypothetical scenarios in which such risks materialize. However, at the individual level, the impact will depend on each CI’s exposure to the transmission channels analyzed below, which is determined by the composition of its assets and liabilities.

Fuente: https://www.banrep.gov.co/en/publications-research/report-board-directors-congress/box3-july-2026