

58th Meeting of the Network of Central Banks and Finance Ministries of Latin America and the Caribbean. IDB Research Department

Session 2. Panel. Financial Stability in Latin America and the Caribbean

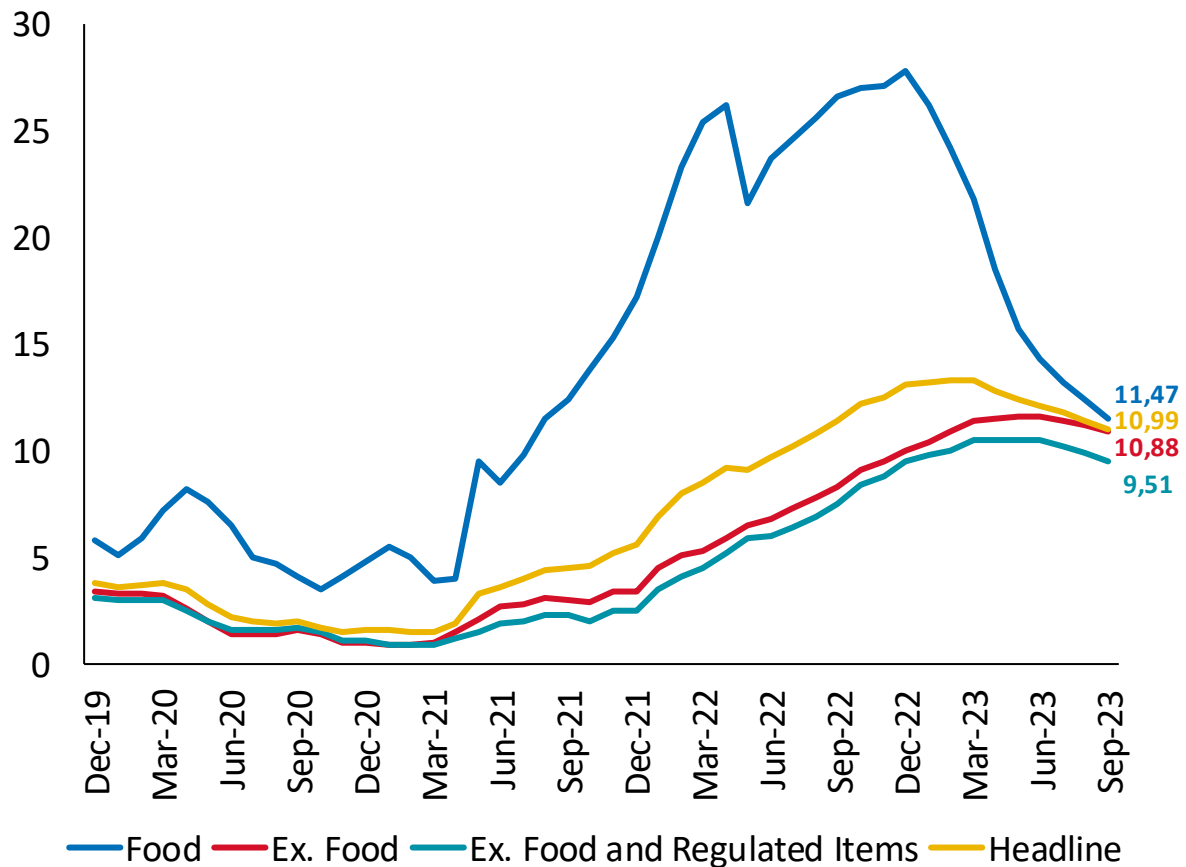


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Washington, November 8th 2023

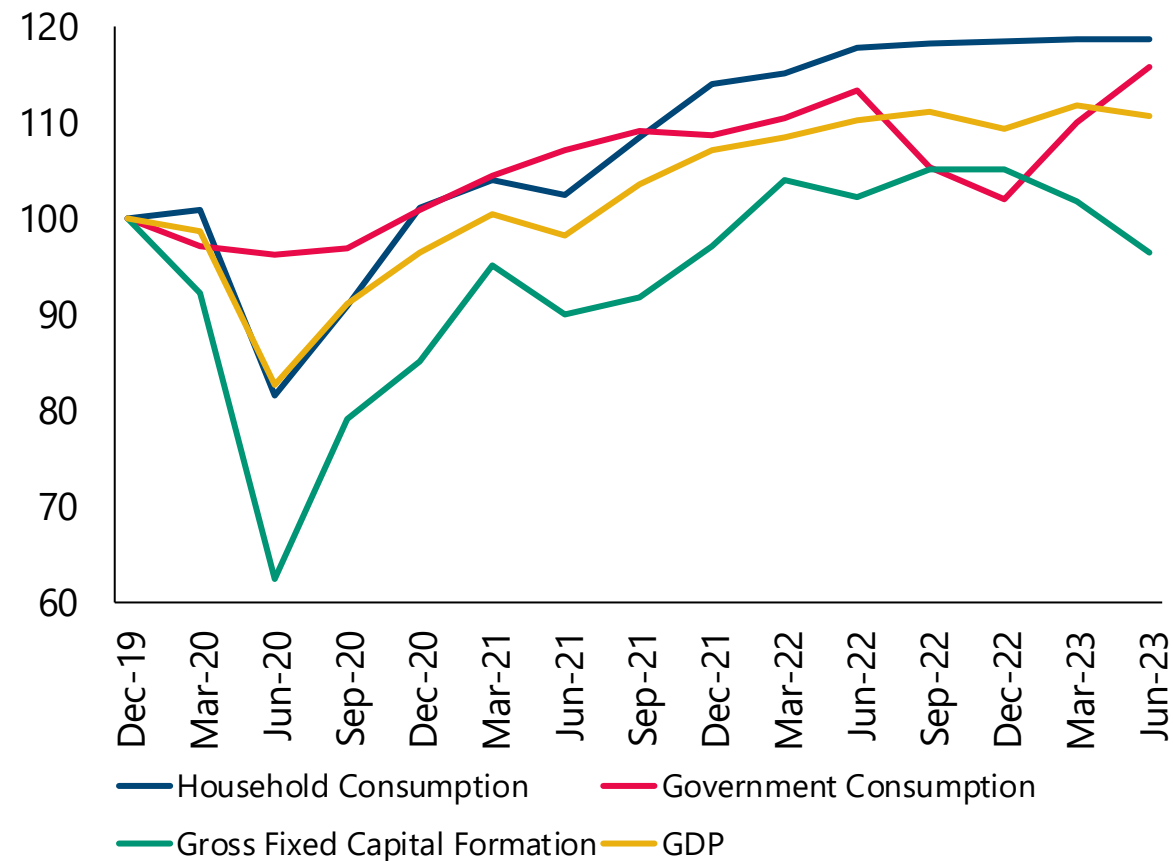
*The opinions presented herein are personal and do not reflect the position of the Central Bank of Colombia or its Board of Directors.

Slower convergence of inflation to the target due to supply and demand factors. Economic activity remains at levels higher than those that would have been observed if the pre-pandemic growth trend continued. Inflation is going down, but the levels are still far from the 3% target. Inflation expectations are above target. Meanwhile output gap is still positive.

Inflation measures



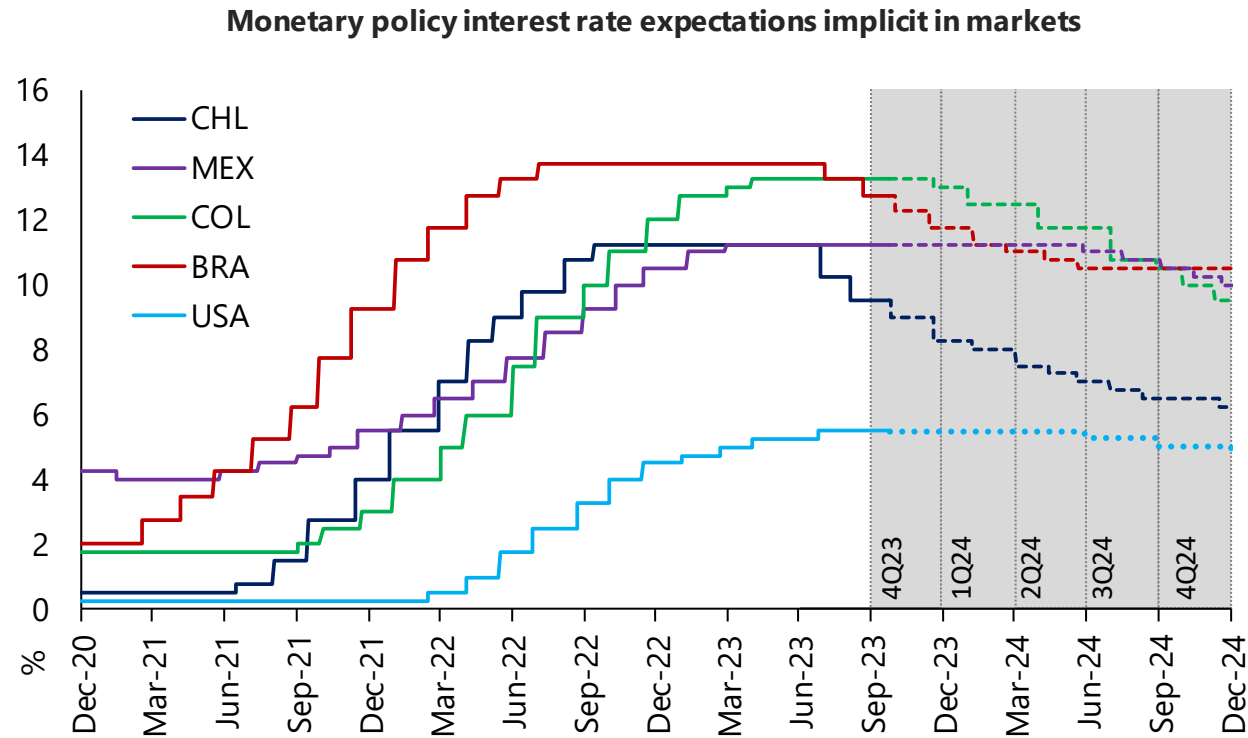
Colombia economic growth performance



Source: Colombian Statistics Department (DANE). Calculations Banco de la República.

Notes: The series are shown in base 100 since December 2019.

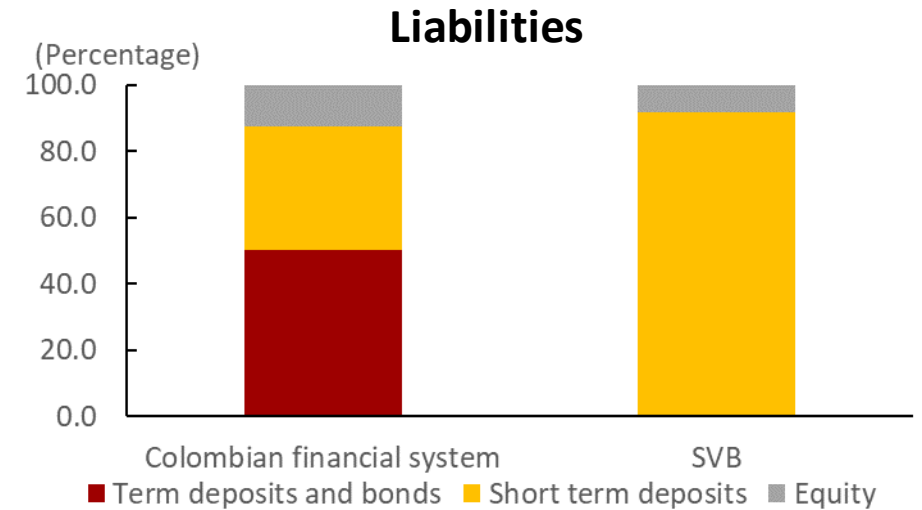
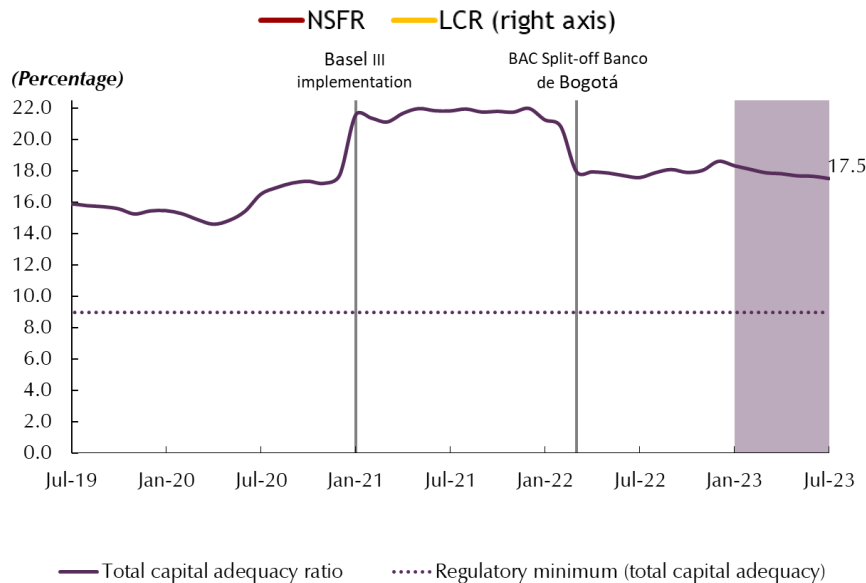
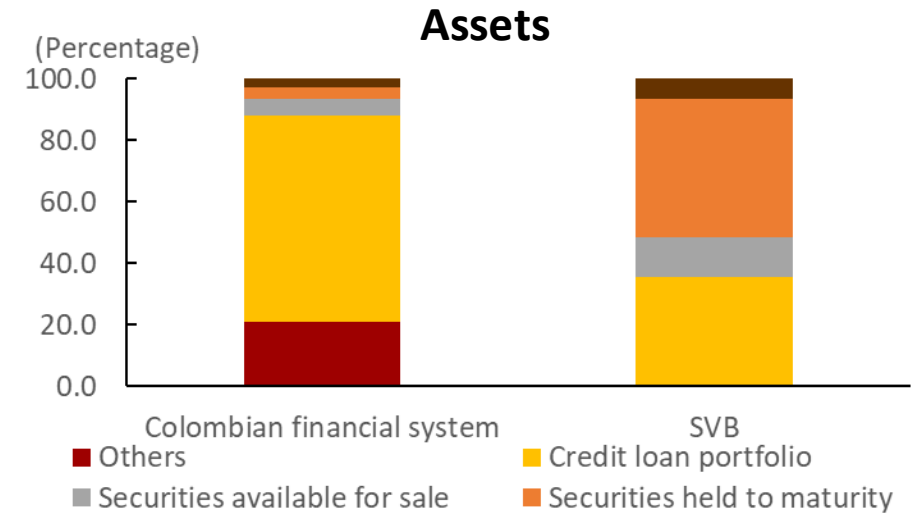
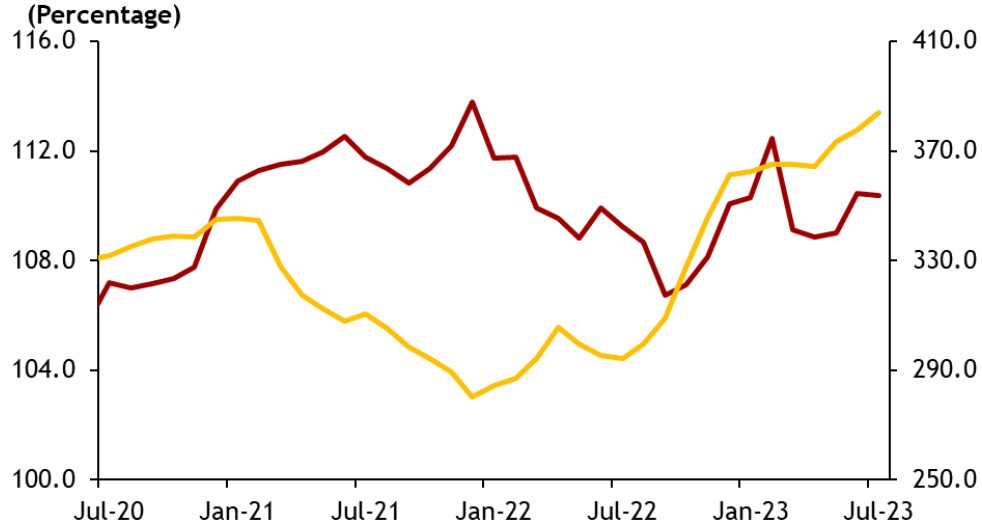
Therefore, it is likely to observe high levels of monetary policy rates for some time supporting the presence of a “high for longer” scenario.....



1. **Source:** Bloomberg. **Notes:** Expectations are derived with information up to October 24. Monetary policy rate expectations are calculated using information from Overnight Index Swaps.

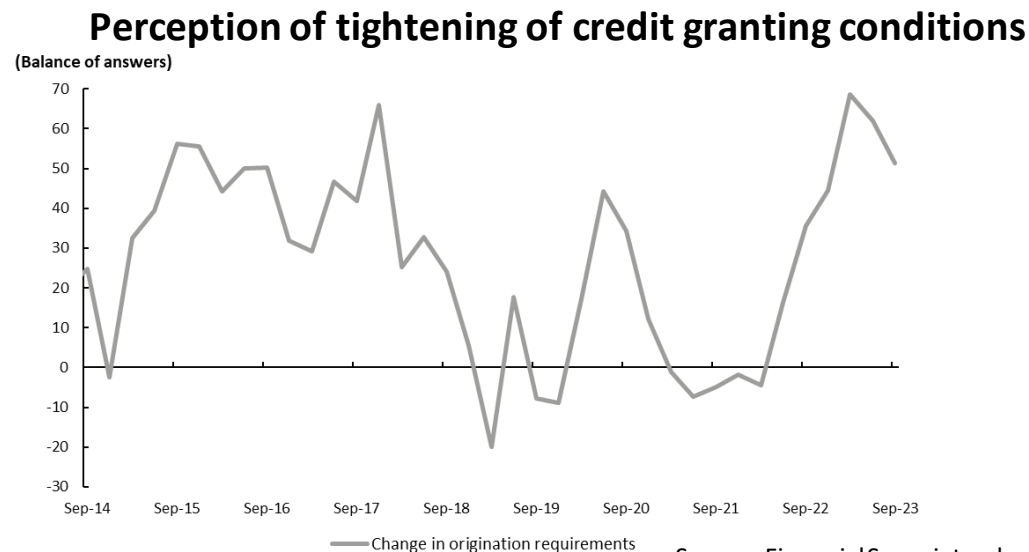
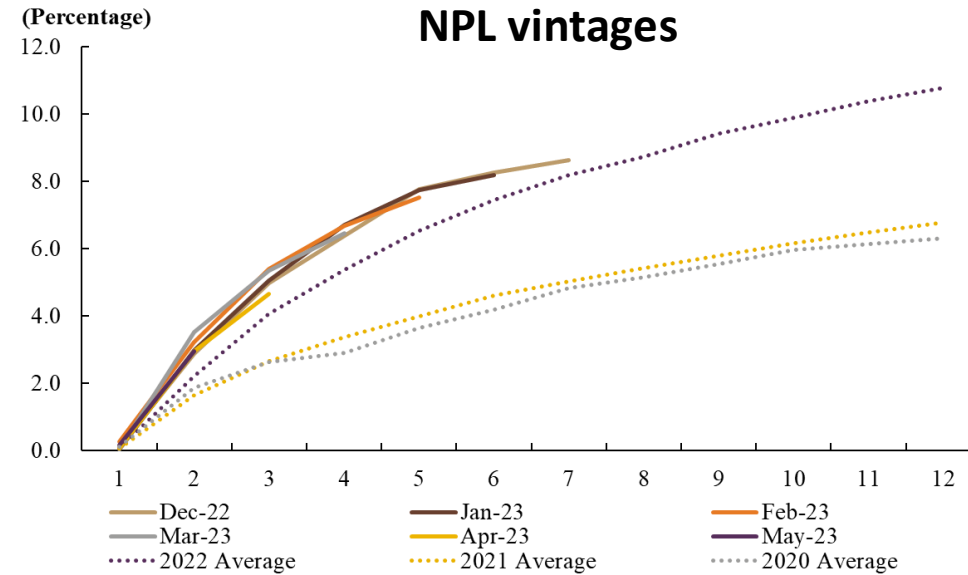
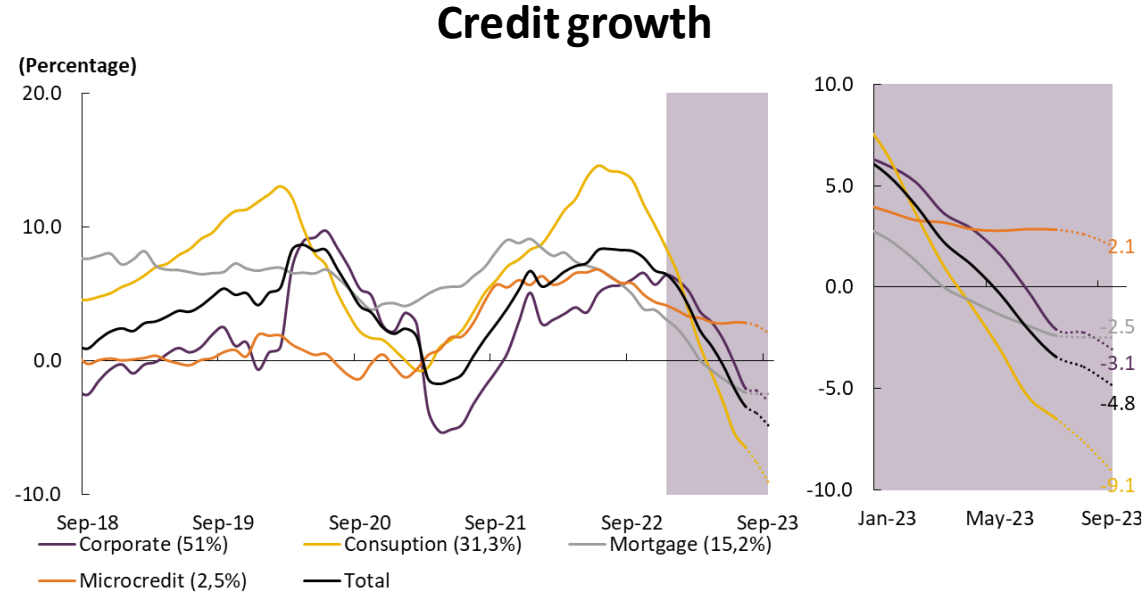
Is the financial sector ready for a challenging scenario characterized by lower growth and persistent inflationary pressures?

- **Yes: Liquidity and capital buffers. Stress tests results.**
- **Sound regulation and supervision. Basel III standards. The structure of the Colombian banking industry and risks are different from US fragile banks.**



Note: "Term deposits and bonds" includes credits, monetary market liabilities and other liabilities.
 Source: Financial Stability Report 2023-I, Banco de la República

So far, credit cycle has been adjusting in an orderly manner, but we came from a credit boom scenario. The current materialization of credit risk was somehow foreseeable. Banks adjusted loan standards a bit late. The credit boom temporarily reinforced macroeconomic imbalances.

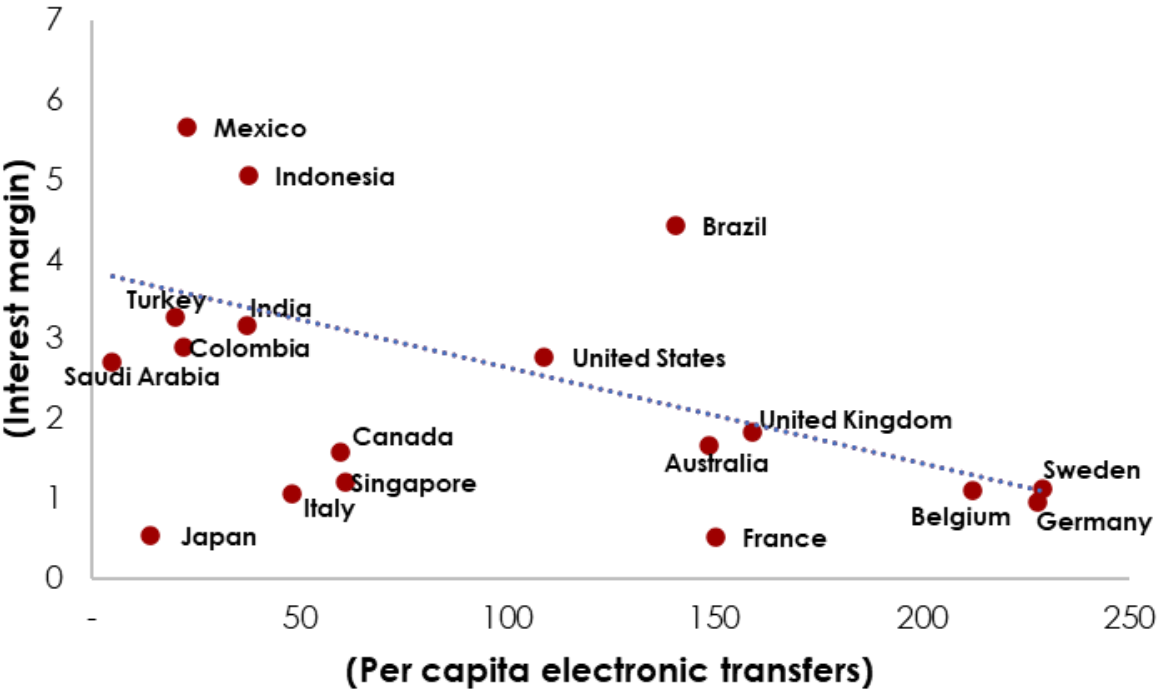


Colombian regulation has been designed based on local characteristics and risks

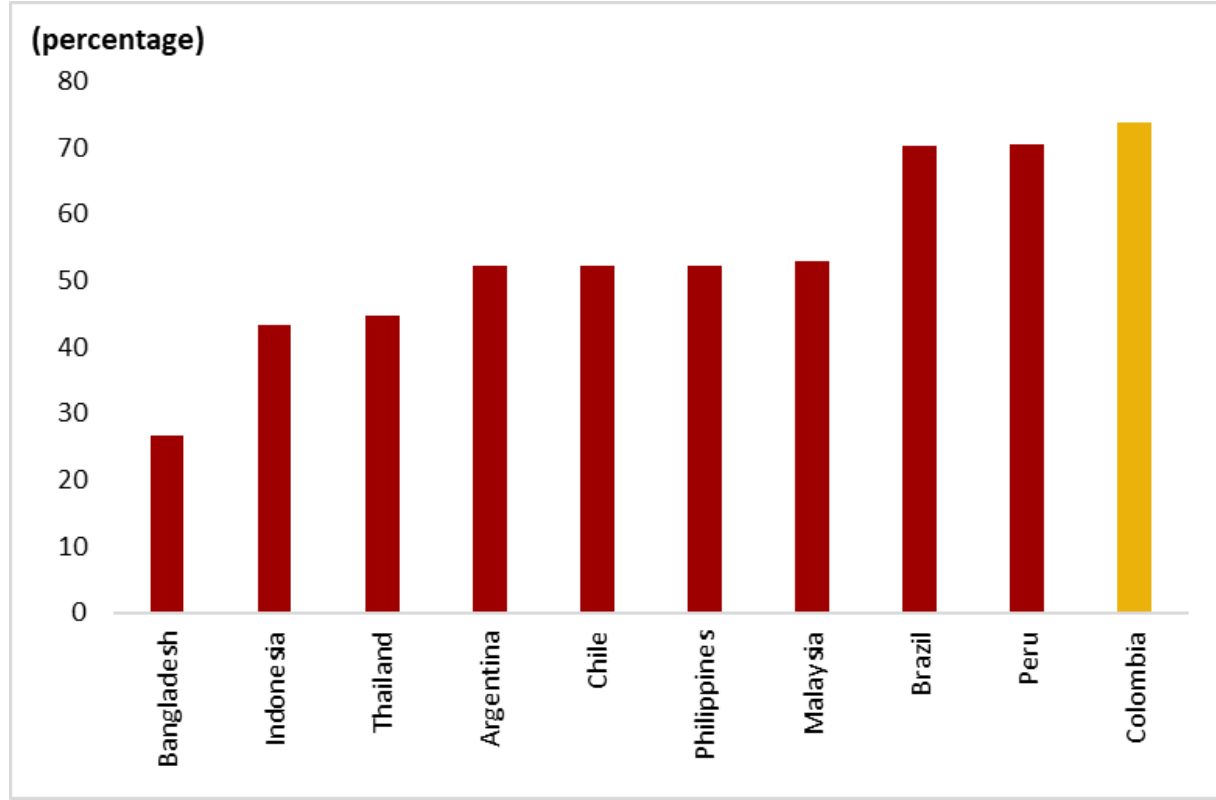
- Sound banking supervision and regulation (e.g., Basel III standards, countercyclical provisions)
- But Basel III standards are not necessarily sufficient. For instance, these standards do not consider all relevant risks for EMEs (i.e., exchange rate and FX liquidity risks)
- *Banco de la República*, as foreign exchange authority, has implemented several risk indicators for intermediaries:
 - Limits on foreign currency risk exposure.
 - Additional capital requirements for institutions with international presence.
- In terms of liquidity indicators, *Banco de la República* implemented a LCR for individual and consolidated positions in foreign currency .
- Currently, *Banco de la República* is developing a NSFR per currency jointly with the Financial Superintendency.

Going forward. Big issues. Level of competition in the banking sector.

- There is scope to promote the level of competition in the Colombian banking system
- The real-time gross settlement payment system developed by *Banco de la República* is expected to increase competition in the financial system.



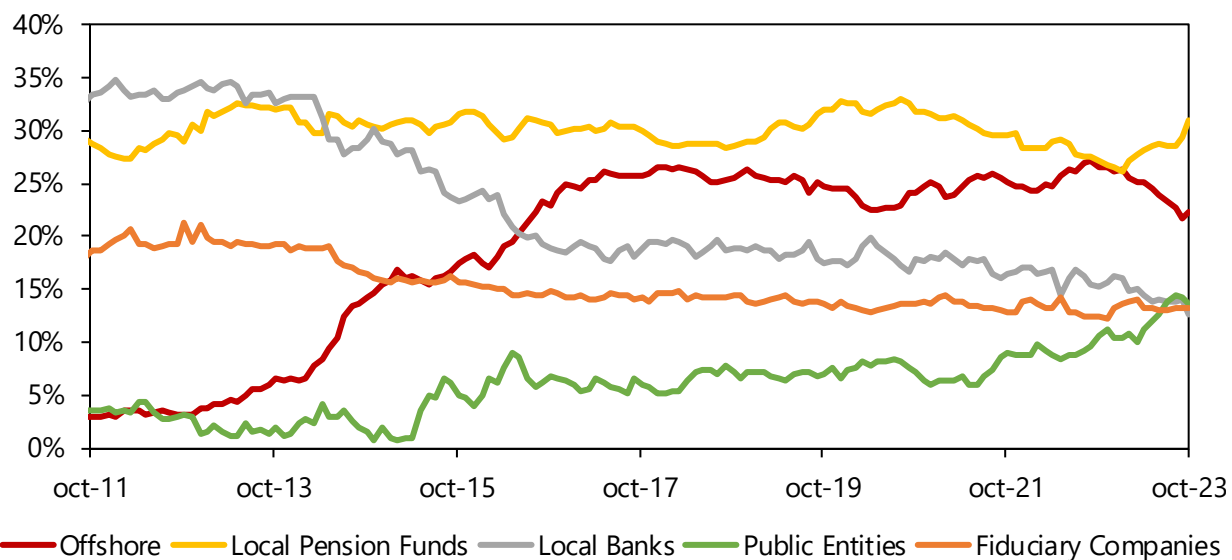
Bank concentration index 2021 (3 biggest banks). World Bank



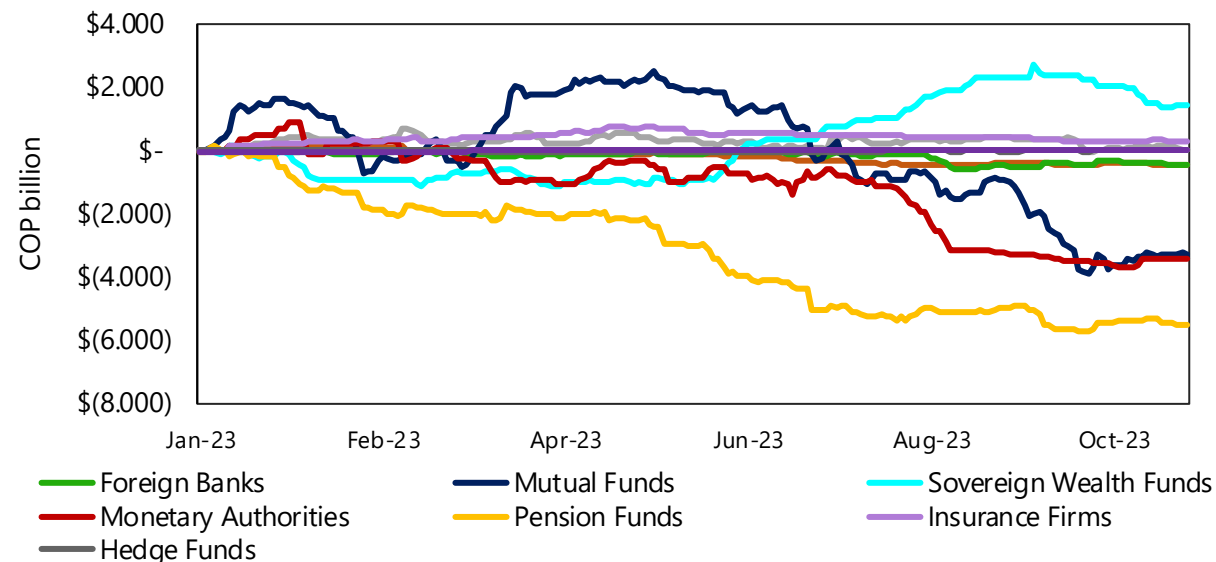
Source: International Monetary Fund, World Bank, BIS Red Book

Other relevant issues. The tightening of external financial conditions has been accompanied by episodes of capital outflows from foreign investors. A change in the composition of sovereign bond holders has been observed.

TES holdings by group of investor (% of Total)



Accumulated purchases in 2023 by group of foreign investor in the TES spot market



Source: Banco de la República. Data up to October 30th, 2023.