Banco de la República | Colombia

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Financial Stability and the Central Bank's Actions to promote it

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Financial stability is understood as a situation in which the financial system (institutions, markets, and infrastructures) complies with three characteristics:

1. It facilitates the efficient allocation of the economy's resources by channeling funds properly.
2. It evaluates, identifies, and manages financial risks appropriately.
3. It is capable of autonomously absorbing, dissipating, and mitigating the materialization of risks that may arise as a result of adverse events.

The stability of the financial system is a key element for *Banco de la República* (the Central Bank of Colombia), because without it, macroeconomic stability is compromised and, therefore, the achievement of the constitutional objective of keeping inflation low and stable would be jeopardized.

Naturally, achieving financial stability depends on the behavior of the institutions that make up the financial system, as well as on the coordinated action of multiple authorities. *Banco de la República* promotes the achievement of financial stability through the following strategies:

1. The maintenance of an efficient payment system and the provision of operations to regulate the liquidity of the economy and facilitate the normal functioning of the payment system, as well as to serve as a lender of last resort to credit institutions under extreme scenarios.
2. Monitoring the vulnerabilities and risks to the stability of the financial system, as well as the general situation of financial institutions, markets, and infrastructures.
3. The publication of periodic reports, special analyses, stress tests, and research papers to inform financial market participants and the public, as well as to promote public debate on trends and

risks to the financial system and the proper functioning of the markets.

4. The use of macroprudential policies to mitigate the emergence or accumulation of financial imbalances that imply an inefficient allocation of resources, risks to financial stability or the proper functioning of the payment system.

Finally, according to the Colombian Constitution, *Banco de la República* is the credit authority of the Colombian economy. As such, the Bank exercises control over specific policy instruments over which it has been granted legal powers and which affect the volume and allocation of credit in the economy.