1. Law 31 of 1992 constitutes the general reference for exercise of the functions attributed to Banco de la República in its capacity as the Central Bank of Colombia and to its Board of Directors (BDBR) as the country's credit authority.

On several occasions, the Constitutional Court[1] has ruled on the jurisdiction established in the Colombian constitution and by law on the subject of credit regulation. In doing so, it has consistently recognized the credit regulatory authority of the BDBR, as well as the autonomy it enjoys to exercise its functions. These must be performed in accordance with congressional legislation, which may not disregard or impair the autonomy of the BDBR.

2. Among the instruments assigned by lawmakers, the BDBR may adopt macro-prudential measures to be implemented in exceptional circumstances and temporarily when market failures and financial risks are evident, such as overvaluation in the price of assets. This is done to preserve the proper functioning of the payment system, as well as to support financial stability.

In this regard, there is administrative intervention with respect to interest rates, a faculty that includes setting maximum limits on remunerative interest on the credit and savings operations of credit institutions, provided such limits do not induce negative real rates. The Board of Directors has exercised this authority on a few occasions, for very limited periods of time, and exclusively with respect to lending operations. [2]

The BDBR also has the power to establish controls regarding the growth of credit operations and, in general, the lending operations of credit institutions. [3]

3. Another instrument available to the BDBR is the establishment of required reserves for financial institutions that receive deposits and collections from the public. This measure is intended to maintain a liquidity reserve that allows intermediaries to solve transitory problems of this nature. Considering the role financial institutions play in transforming terms (short-term liabilities into longer term assets), an unexpected outflow of resources can translate not only into cash flow problems, but also into a reduction in the value of their assets. In these cases, the legal reserve helps to mitigate such risks.

In addition, this instrument can be a complementary tool of monetary policy, a fact that has been exceptional in Colombia through the imposition of marginal reserve requirements. With them, the aim is to control monetary and credit surpluses, as well as to reinforce the transmission channels for changes in the benchmark interest rate.

4. Among its other credit functions, the BDBR has the authority to indicate the financial conditions to which public entities must submit to acquire or issue securities, so as to ensure these operations are conducted under market conditions. The law also gives it powers related to financing for the agricultural sector. In this regard, the BDBR is authorized to determine the amount of mandatory investments in agricultural development bonds (TDA) that are required of financial institutions, to indicate the characteristics of such securities (terms and interest rates), and to determine substitute placements of mandatory investments. The BDBR also has the power to set general limits on interest rates for agricultural loans.

5. As of 2000, the BDBR has established the value in pesos of the UVR, based on inflation, and the limits to maximum remunerative interest rates on home loans in UVR and in pesos. This is done within the framework of the new home financing system created under Law 546 of 1999 and in strict compliance with the criteria and procedures established by the Constitutional Court in Ruling C-955 of 2000.

6. When making decisions in its capacity as the country's monetary and credit authority, Banco de la República generally follows the financial system as a whole and the financial markets (debt, foreign exchange, money market and capital markets, among others), so as to identify when situations arise that might jeopardize macroeconomic and financial stability, as well as compliance with inflation target. This macro-prudential analysis makes it possible to identify trends and risks in the system, so the BDBR can act appropriately to achieve its policy objectives.

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1 On this subject, it is important to mention rulings C-021 of 1999, C-489 of 1994, C-256 of 1997, C-383 of 1999, C-481 of 1999, C-208 of 2000 and C-827 of 2001, among others.

2 In 1992 and 1995.

3 This control has been exercised once, specifically in March 1994 when the BDBR imposed a limit on growth in the total amount of lending operations, including portfolio operations, acceptances and guarantees by endorsement. The measure was repealed in August 1994.