



# What is financial stability and how does Banco de la República promote it?

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Financial stability is a situation in which the financial system (institutions, markets and infrastructure) features three characteristics:

1. It assesses and manages financial risks appropriately.
2. It facilitates economic performance and efficient resource allocation.
3. It can autonomously absorb, dispel and mitigate any risks that might materialize as a result of adverse events.

The stability of the financial system is crucial for Banco de la República. Without it, the performance of the economy is jeopardized, making it difficult for the Bank to achieve its constitutional objective of keeping inflation low and stable.

Naturally, achieving financial stability depends on the coordinated efforts of multiple authorities, as well as the performance of the institutions that make up the financial system. Banco de la República, as the credit authority for the Colombian economy, promotes financial stability through three strategies that pursue each of the three characteristics mentioned above. Specifically, it:

1. publishes regular reports, stress-test exercises and research papers to keep financial markets and the public informed, and to encourage public debate on trends and risks affecting the financial system;
2. applies macro-prudential policies to mitigate the emergence of financial imbalances that may imply inefficient resource allocation; and
3. maintains an efficient payment system and conducts operations to regulate liquidity in the economy and to facilitate the normal operation of payment systems, in addition to providing support to credit institutions as the lender of last resort.

## Research on Financial Stability

The Financial Stability Department at Banco de la República has an academic research agenda that is intended to explore the various aspects and interrelationships that are relevant to an analysis of financial stability. These aspects, among others, help develop the monitoring tools used in that analysis. Consult our research webpage for a list of working documents on the subject that are available online.