Assessing the effects of recent provisioning rules on consumer credit allocation in Colombia

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Resumen:

Colombia’s post-pandemic recovery in 2021–2022 was marked by rapid consumer credit growth, followed by deteriorating credit quality indicators amid tightening financial conditions. In January 2023, the Superintendence of Finance of Colombia (SFC) introduced higher provisioning requirements for long-term consumer loans to enhance financial resilience against credit risk materialization and to help moderate the rapid expansion of consumer credit observed prior to the reform. From the perspective of credit institutions (CIs), increased provisions imply higher expenses and potential profitability pressures, which could lead to adjustments in lending strategies. This study evaluates the effect of that regulatory policy on consumer credit dynamics and CI soundness. We find that the measure increased CIs’ provision coverage ratio, indicating progress toward the policy´s resilience objective, but it did not significantly affect overall credit supply conditions for longer-maturity loans in terms of loan amounts, interest rates, and collateral requirements. However, these average effects mask notable heterogeneity across institutions. Smaller lenders tightened credit supply for loans whose maturity exceeds 108 months by reducing loan amounts and lowering loan-to-value ratios, while larger lenders absorbed the higher provisioning costs without altering credit terms.

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