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A Composite Indicator of Systemic Stress (CISS) for Colombia

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The most recent global financial crisis (2008-2009) highlighted the importance of systemic risk and promoted academic interest to develop a wide set of warning indicators, which are mechanisms to identify systemically important institutions and global systemic risk indexes. Using the methodology proposed by Holló et al. (2012), along with some considerations from Hakkio & Keeton (2009), this document comprises a Composite Indicator of Systemic Stress (CISS) for Colombia. The index takes into account several dimensions related to financial markets (credit institutions, housing market, external sector, money market and local bond market) and is constructed using portfolio theory, considering the contagion among dimensions. Results suggest the peak of the global financial crisis (September 2008) as the most important episode of systemic risk in Colombia between 2000-2014. Additionally, real activity seems to be adversely affected by an unexpected increase of the systemic risk index.

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