Stress Tests on the Financial System

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The Financial Stability Department at *Banco de la República* (the Central Bank of Colombia) regularly conducts stress tests on Credit Institutions (CI) as a component of the analysis of financial stability vulnerabilities. These tests, known in the international literature as stress tests, involve a quantitative study that evaluates how resilient CIs are to a hypothetical, adverse, and unlikely macroeconomic scenario. The adverse scenario being considered has been designed intentionally to reflect an extreme situation for the Colombian economy. It incorporates several shocks that would coincide, but which would be unlikely. In this sense, the results are not interpreted as a forecast of the future evolution of the Colombian economy; instead, they should be read as a quantitative evaluation of how resilient institutions are to an extreme scenario, based on their current financial conditions and under restrictive assumptions.

The exercise is useful in estimating the potential losses that would be observed if the extreme scenario were to materialize. Moreover, it helps to illustrate the possible transmission channels through which the identified vulnerabilities could affect financial stability.

Technical details on the model used in this exercise, including the characterization of the performance of the institutions in a hypothetical scenario and the channels through which their financial health would be impacted, are provided in the series *Borradores de Economía*, 1028: "Sysmo I: A Systemic Stress Model for the Colombian Financial System".

See here *??los resultados del último ejercicio de stress testing aplicado por el Banco de la República a los establecimientos de crédito* (the results of the last stress testing exercise led by *Banco de la República* to CIs)

Fuente: https://www.banrep.gov.co/en/financial-stability/stress-tests-financial-system