Box 4: Estimating a Local Financial Conditions Index (FCI) for Colombia - Monetary Policy Report, April 2026

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Financial conditions reflect the state of financial factors that, through various channels (e.g., leverage), influence the current and future evolution of key economic variables (Hatzius et al., 2010). Accordingly, the Financial Conditions Index (FCI) for Colombia is constructed to synthesize information from a wide range of indices across different financial markets, enabling the timely identification of signals of economic activity.

The literature highlights that financial condition indices are a valuable tool for monetary policy purposes because they facilitate comparison of financial conditions across periods and serve as inputs to macroeconomic forecasting models. (Angelopoulou et al., 2014). Studies such as those of Hatzius et al. (2010) and Koop and Korobilis (2014) show that these indices incorporate information about the business cycle that is not directly reflected in traditional variables, thereby capturing temporary signals associated with key episodes in the economic and financial analysis of an economy. In addition, financial condition indices play an important role as a communication tool, synthesizing the economy’s financial situation in a clear and understandable manner, helping to shape public expectations and strengthen the credibility of monetary policy. (Blinder et al., 2009). In Colombia, a small and open economy vulnerable to external shocks and periods of high financial volatility, using a synthetic indicator of domestic financial conditions helps anticipate risks, enhances macroeconomic analysis, and contributes to informed decision-making. This, in turn, supports more effective monetary policy.

Fuente: https://www.banrep.gov.co/en/publications-research/monetary-policy-report/box4-april-2026