



# HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

## COLOMBIA

Assessment of Financial Stability Report

**September 2023**

**Prepared By**

*Sumiko Ogawa (IMF/MCM), Rhiannon Sowerbutts (Short-term expert, Bank of England)*

2023 International Monetary Fund HLS/23/011

**High-Level Summary Technical Assistance Report**  
Monetary and Capital Markets Department

**Colombia—Assessment of Financial Stability Report**  
Prepared by Sumiko Ogawa and Rhiannon Sowerbutts

**The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.**

**ABSTRACT:** The financial stability report of the Banco de la República of Colombia (BR) provides broad coverage of macroeconomic environment and the assessment of risks in the financial system. The BR should continue developing data and enhancing forward-looking analytical approaches, sharpen messages on key risks, and develop a layered communication approach to reach audiences with different levels of technical expertise. As new risks emerge, the BR could take stock and update the structure as needed in the medium term. Over the long term, the BR should continue deepening the understanding of the channels and interaction between financial stability and monetary policy.

JEL Classification Numbers: G10, G20, E58
---

Keywords: Financial stability report, systemic risk
---

**DISCLAIMER**

---

*The contents of this document constitute a high-level summary of technical advice provided by the staff of the International Monetary Fund (IMF) to the authorities of Colombia (the "CD recipient") in response to their request for capacity development. Unless the CD recipient specifically objects within 30 business days of its transmittal, the IMF will publish this high-level summary on IMF.org (see [Staff Operational Guidance on the Dissemination of Capacity Development Information](#)).*

## Background

**The financial stability report (FSR) of the Banco de la República of Colombia (BR) provides broad coverage of macroeconomic environment and the assessment of risks in the financial system.** The biannual report is considered as one of the main sources of data and information on financial stability in Colombia, and the BR makes presentation on the key messages to the public at the time of the publication. It also plays an important role in a broader framework of systemic risk monitoring—it is presented to the financial security network, which is a set of entities that share a financial stability objective. The BR, Financial superintendency of Colombia, Fogafin and the Ministry of Finance are members.

## Summary of Findings

**The current structure of the FSR appears to work well in covering a range of relevant risks and vulnerabilities as well as topical issues, but there is room for evolution.** The stable structure, comprising macroeconomic environment, development in risks and vulnerabilities, stress tests, and changes in financial regulations, allows for consistent provision of information and assessment. At the same time, it usually contains 4-7 boxes on thematic topics, providing flexible means to cover topical and/or emerging issues. As new risks become more permanent and related data more readily available, the BR could take stock and update the structure as needed in the medium term.

**The BR should continue developing data and analytical approaches.** The efforts to compile granular data should be continued, particularly on the household sector indebtedness and financial conglomerates. While the data published in and with the FSR is highly valued, the time lag makes it difficult to put out timely assessment of fast changing risks in the financial system. To mitigate this challenge, the BR could consider releasing a short update in between the FSR cycles, focused on data with a brief write-up on macroeconomic outlook. Such an interim update could be based on preliminary or more aggregate data that are already available and draw heavily on other existing publications such as the monetary policy report. The BR could also consider including more up to date data in its report but making it clear that it is preliminary. Streamlining internal weekly/monthly reports could help reduce resource constraints.

**Efforts to expand forward-looking analyses should continue, including stress testing and sensitivity analyses of the corporate and household sectors and on interconnectedness.** Such analyses should be based on and be consistent with the assumptions in the bank stress test, providing a coherent scenario for the assessment of resilience. Given the increasing exposure of Colombian financial conglomerates in Central America, the BR should focus its attention on examining and understanding financial linkages and potential spillover channels.

**The messages on key risks should be sharpened and made more forward-looking.** The FSR should convey a consistent narrative throughout the report, by elaborating risk transmission channels, and linking the risks identified more explicitly to stress test scenarios that are employed throughout the report. Supplementing the newly introduced vulnerability matrix with relevant indicators extracted from the Heatmap could help substantiate the assessment and enhance the clarity of the narrative.

**A layered communication approach would help adapt the key messages of the FSR to audiences with different levels of expert knowledge and interest.** There is limited financial press in Colombia. Holding separating briefings on the FSR for journalists and expert audience (e.g., financial analysts) would allow the communication to be adjusted to the level of their technical understanding. In addition, enhancing the “in-reach” within the BR and to the financial regulatory community would foster greater understanding of financial stability issues and could facilitate a more structured exchange of views.

**There would be clear gains in deepening the understanding of the channels and interaction between financial stability and monetary policy as the financial system continues to evolve.**

Enhancing knowledge sharing between staff working on financial stability and monetary policy and further improving information about the sensitivity of various vulnerabilities in the FSR would help monetary policy decision makers, which in turn may have a positive feedback effect on financial stability.

## Summary of Recommendations

**Table 1. Key Recommendations**

<b>Recommendations</b>	<b>Priority</b>	<b>Timeframe<sup>1</sup></b>
<b><i>Structure of Financial Stability Report</i></b>		
1. Review and update the structure of the Financial Stability Report, taking stock of recurring and relevant issues	Medium	Medium term
<b><i>Data and Analysis</i></b>		
2. Consider producing an ‘interim’ update which is focused on data rather than analysis, taking advantage of preliminary and/or less granular data available	Medium	Medium term
3. Continue developing analytical approaches, including on the household sector and financial conglomerates	High	Short term
4. Expand forward-looking analyses, including stress testing and sensitivity analyses of the corporate and household sectors	High	Medium term
5. Streamline internal reports, leveraging the forward-looking analysis in the FSR	Medium	Medium term
<b><i>Messaging</i></b>		
6. Enhance the clarity of the messages and make them more forward-looking by reiterating the consistent narrative and elaborating on risk transmission channels throughout the report	High	Short term
7. Link the assumptions for the stress testing scenarios more explicitly with risks discussed in the conjunctural chapters	High	Medium term
<b><i>Communication</i></b>		
8. Develop a layered communication approach	High	Short term
9. Introduce separate briefings for the media and the expert audience	High	Short term
10. Enhance the in-reach within the BR and other financial sector authorities to facilitate a more structured exchange of views.	Medium	Long term
<b><i>Long-term Issues</i></b>		
11. Develop deeper understanding and knowledge sharing on monetary policy and financial stability interactions	High	Long term

<sup>1</sup> Short term: less than 12 months; Medium term: between 12 and 24 months; Long term: more than 24 months.