
[Download](#)

Keep in mind

En la revista Ensayos sobre Política Económica (ESPE) divulgamos los resultados y las propuestas de política que surgen de investigaciones académicas realizadas en el Banco de la República. Cuando nos lea, tenga siempre presente que el contenido de nuestros artículos, así como los análisis y conclusiones que de ellos se derivan, son exclusiva responsabilidad de sus autores. El material divulgado en nuestra revista ESPE no compromete ni representa la opinión del Banco de la República ni la de su Junta Directiva.

AUTHORS AND/OR EDITORS

[Gómez-González, Esteban](#)

[Murcia-Pabón, Andrés](#)

[Zamudio-Gómez, Nancy Eugenia](#)

Publication Date:

Saturday, 31 December 2011

Abstract

This paper is an attempt at constructing a simple and effective macroprudential tool for policymakers. By integrating the joint occurrences of the main financial markets in Colombia into a single Financial Conditions Index (FCI), we hope to synthesize the information embedded in them regarding possible future economic outcomes. To do this, we use monthly data on 21 variables for the period comprised between July, 1991 - June, 2010 and apply Principal Component Analysis (PCA) on their correlation matrix. On the one hand, we evaluate the predictive capacity of the FCI in forecasting GDP growth at different time horizons and find that it performs better as a leading indicator of real activity than other individual financial variables and an autoregressive model of GDP growth. Additionally, we are interested in testing the FCI's long-term capability to correctly anticipate periods of distress in the economy, and find that the index could be used as an effective early-warning indicator. Hence, our FCI seems to represent a useful instrument for both financial stability and macroprudential supervision purposes.