

Loans Growth and Banks' Risk: New Evidence

Working Paper No. 763 Keep in mind

The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHOR OR EDITOR Juan Sebastián Amador José Eduardo Gómez, Andrés Murcia Publication Date:
Thursday, 12 of April 2012

This study provides new evidence on the relationship between abnormal loan growth and banks' risk taking behavior, using data from a rich panel of Colombian financial institutions. We show that abnormal credit growth during a prolonged period of time leads to an increase in banks' riskiness, supported by a reduction in solvency and an increase in the ratio of non-performing loans to total loans. We also show that abnormal credit growth played a fundamental role in the bank-failure process during the late 1990s financial crisis in Colombia. Our results have important implications for financial regulation and macro-prudential policy

Disclaimer: The findings, recommendations, interpretations and conclusions expressed in this paper are those of the authors and do not necessarily reflect the view of the Banco de la República or its Board of Directors.