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Credit Funding and Banking Fragility: An Empirical Analysis for Emerging Economies

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AUTHOR OR EDITOR Alexander Guarín Ignacio Lozano
This paper proposes an empirical model to identify and forecast banking fragility episodes using information on the credit funding sources. We predict the probability of occurrence of such episodes 0, 3 and 6 months ahead employing a Bayesian Model Averaging of logistic regressions. The exercises use monthly balance sheet data since the middle of the nineties for the banking system of nine merging economies: Brazil, Colombia, Croatia, Czech Republic, Mexico, Peru, Poland, Taiwan and Turkey. Our findings suggest that the increasing use of wholesale funds to support credit expansion provides warning signals of banking frailness. The in-sample and out-of-sample predictions indicate that the proposed technique is a suitable tool for forecasting short-term financial fragility events. Therefore, monitoring these funds through our tool could become useful in prudential practice.

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