

# Banking Fragility in Colombia: An Empirical Analysis Based on Balance Sheets

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In this paper, we study the empirical relationship between credit funding sources and the financial vulnerability of the Colombian banking system. We propose a statistical model to measure and predict banking-fragility episodes associated with credit funding sources classified into retail deposits and wholesale funds. We compute the probability of financial fragility for both the aggregated banking system and the individual banks. Our approach performs a Bayesian averaging of estimated logit regression models with monthly balance sheet data between 1996 and 2013. The results show the increasing use of wholesale funding to support credit expansion is a potential source of financial fragility. Therefore, monitoring credit funding sources could provide an additional tool to warn against banking disruptions.

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