Research Announcement

Excessive Risk-Taking, Banking Sector Fragility, and Banking Crises

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Abstract

In the financial crisis literature, it is usually argued that, contrary to the case of currency crises, construction of a time series index to identify banking crisis episodes is highly difficult, particularly because of the lack of reliable data on banking sector variables such as the level of non-performing loans. Accordingly, existing methods used to pinpoint banking crisis years are generally event-based, such as that used by Caprio and Klingebiel (1996 and 1999) and Lindgren et al. (1996). This paper, however, proposes a weighted banking sector fragility index to measure the changes in banks' vulnerability to crisis. Using monthly sectoral data for selected 22 countries, it is argued that this type of a fragility index seems to be highly useful in measurement and monitoring of changes in banking sector fragility.

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