

Indicators of a Bank Crisis

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Abstract

This research investigates what would be the significant economic and financial indicators that leads to a Banking Crisis and build a platform to take prudential economics actions in order to prevent Banking Crisis. Prior to economy leads to a Bank Crisis, Pattern of indicators can be identified. By using those significant indicators, a warning system will be made at the end of this research as the final result for the financial system of a country. Throughout this warning system, it will be assistance to predict the future scenarios in relation to the financial system. The development of aggregate baking stability index for 10 years shows that the level of financial stability has deteriorated during the global financial tsunami in 2008 and European debt crisis in 2010 in Sri Lanka. Internal incidents very much affect the banking sector of Sri Lanka. At the end of this research I check whether what are the variables had been more sensitized during above mentioned crisis. Base on those results, it can be checked that whether the economy leads to a banking crisis or not according to the selected variables.

Key Words: *Banking Crisis, Aggregate Banking Stability Index, Banking Soundness Index, Financial Vulnerability Index, Regional Climate Index*