Identifying credit booms in Latin America

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ABSTRACT

In recent years loans to the private sector grew remarkably in Latin America. A central issue is to determine whether this constitutes a dynamic process of convergence towards equilibrium levels or if it represents a threat to financial and monetary stability. This study attempts to answer this question with statistical and econometric techniques using a sample of 18 Latin American countries.

Statistical techniques allow determining credit deviation of credit relative to its long-term trend, while the econometric approach allows analyzing the behavior of loans related to their underlying fundamentals. According to the first approach the countries of the region would not be experiencing periods of credit booms, while the conclusions of the econometric model indicate that the majority of Latin American countries have lower levels of financial deepening considering their equilibrium levels.

JEL Classification: *E30, E51, G21*

Keyword: *Credit boom, financial deepening*