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Early warning indicators for the private corporate sector in Colombia

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AUTHOR OR EDITOR María Fernanda Meneses-González, Javier Eliecer Pirateque-Niño, Santiago David Segovia-Baquero
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ABSTRACT
This paper assesses the usefulness of some financial variables in predicting episodes of vulnerability for the private corporate sector in Colombia. We analyse the evolution of several indicators for firms that have experienced episodes of distress. Additionally, we validate the predictive power of our indicators by using in-sample and out-of-sample tests. The results suggest that the ratio of financial obligations to assets, as well as a measure of debt-to-cashflow provide better information. Likewise, we find that classifying the firms by economic sector and the use of several variables at the same time improve the ability to detect changes in the financial health of firms.

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