

Abstract

The thesis examines the relation of the low-interest rate environment to the banks' selected credit risk measures with a panel dataset on banks in Eurozone, Denmark, Japan, Sweden, and Switzerland covering the period 2011–2017. It employs a system GMM framework and a combination of bank-related and macroeconomic variables. This study builds on recent literature on effects of low-interest rates on banks' profitability and estimates the following three hypotheses: The potential effects of the low-interest rate on non-performing loans (NPL) ratio, risk-weighted assets (RWA) to total assets ratio, and changes in Tier 1 capital ratio. There are three main results: Firstly, the results suggest that a prolonged period of negative monetary interest rate can affect the NPL ratio and reveal a possible relationship between the 3M-interbank interest rate and NPL ratio. Thus, the thesis does not reject the first hypotheses. However, it rejects these hypotheses in case of the other two ratios. Secondly, the study finds a bank heterogeneity to be a significant determinant of the credit risk. Finally, using recent data, this thesis contributes to the literature focusing on the drivers of the NPL ratio, RWA to total assets ratio and Tier 1 capital ratio, where in case of the latter two the existing research is limited compared to the NPL.