Abstract

The thesis deals with bank corporate credit risk management during the COVID-19 crisis in the US and the UK. As a proxy of corporate credit risk, we employ corporate aggregate probability of default provided by Credit Benchmark. To measure the impact of the crisis on corporate aggregate probability of default, we use variables representing macroeconomic and financial market environments. Furthermore, as proxies for the COVID-19 shock and governments' fiscal measures, we employ COVID-19 stringency index and dummy variable(s), respectively. Our data set consists of 60 monthly observations, and by its structure is suitable for time series analysis. The analysis is based on Ordinary Least Squares, Two Stage Least Squares, and Generalized Method of Moments estimations. The results show that fiscal measures "artificially" decreased change of corporate aggregate probability of default in both countries. We recommend that the respective bank credit risk managers incorporate proxies representing fiscal measures in their estimation of through-the-cycle probability of default that serves as an input for calculating regulatory capital. Besides, a variable representing stringency index is found to be significant in the US's model. Thus, we recommend using such a proxy as input for stress testing in the US.