

Abstract

Stress testing is a macro-prudential analytical method of assessing financial system's resilience to adverse events. This thesis describes the methodology of stress tests and illustrates stress testing for credit and market risks on real bank-by-bank data in two Balkan countries: Croatia and Serbia. Credit risk is captured by macroeconomic credit risk models that estimate default rates of corporate and household sectors. Setting-up the framework for countries that were not much covered in former studies and that face limited availability of data has been the main challenge of the thesis. The outcome can help to reveal possible risks to financial stability. The methods described in the thesis can be further developed and applied to emerging markets that suffer from similar data limitations.

JEL Classification: E37, G21, G28

Keywords: banking, credit risk, default rate, macro stress testing, market risk