

Abstract

In this paper we stress test the banking sectors of the PIIGS countries. We focus in particular on modeling the credit risk and estimating the impact of changes in macroeconomic variables on the level of capital adequacy. We develop two scenarios - a baseline stress testing scenario and an adverse scenario. The results indicate that under both scenarios, the analyzed banking systems have some capital adequacy issues. We find that the Portuguese banking sector is facing biggest capitalization problems. Number of undercapitalized banks under the adverse scenario is bigger than in baseline scenario for all the countries. Another finding which is common for all the countries is that large-sized privately owned banks are better capitalized than small and medium-sized ones. Last finding concerns ownership structure where we have found that all the state-owned banks are undercapitalized in both scenarios.

JEL Classification F12, F21, C53, E37, G21, G28

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