ESTIMATION OF CREDIT LOSSES AND MACROECONOMIC CREDIT RISK STRESS TESTING: A CASE FROM TURKEY

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Abstract

In this study, inspired by the Credit Portfolio View approach, we intend to develop an econometric credit risk model to estimate credit loss distributions of Turkish Banking System under baseline and stress macro scenarios, by substituting default rates with non-performing loan (NPL) ratios. Since customer number based historical default rates are not available for the whole Turkish banking system's credit portfolio, we used NPL ratios as dependent variable instead of default rates, a common practice for many countries where historical default rates are not available. Although, there are many problems in using NPL ratios as default rates such as underestimating portfolio losses as a result of totally non-homogeneous total credit portfolios and transferring non-performing loans to asset management companies from banks' balance sheets, our aim is to underline and limit some ignored problems using accounting based NPL ratios as default rates in macroeconomic credit risk modeling. Developed models confirm the strong statistical relationship between systematic component of credit risk and macroeconomic variables in Turkey. Stress test results also are compatible with the past experiences.

Keywords: Credit Risk, Credit Portfolio View, Macroeconomic Stress Testing, Non Performing Loan Ratios, Turkish Banking System

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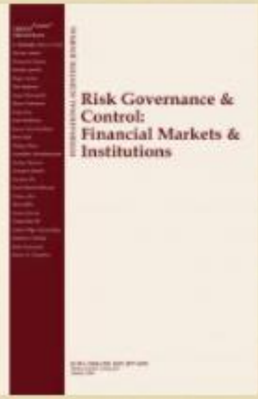

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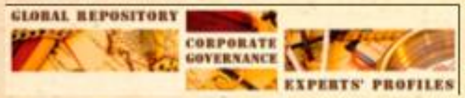

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