

The Effect of Macroeconomic Resilience on Bank Credit Risk (Cross-Country Study)

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Abstract

The purpose of this paper is to estimate the effect of macroeconomic resilience on credit risk of the banking system using annual data (2005-2016) for 125 countries in the form of GMM Model. The results show that the components of Good Governance, Market Flexibility and Human Development on credit risk is negative and significant. The effects of macroeconomic instability variables and the cost of starting a business on credit risk is positive and significant. In addition, the misery index (the sum of inflation and unemployment rates), human development, Nonperformance loan in the past year, and political stability have had the highest degree of impact on the credit risk of the banking system. Also the cross effect of political stability and good governance with macroeconomic imbalances has reduced the credit risk of the banking system. The effect of nonperformance loan in the previous period and the ratio of profit margin to gross income, and the effect of capital adequacy ratios are negative and significant.

Keywords: Economic Resilience, Good Governance, Credit risk, Nonperformance loan, Generalized Method of Moments Model.

JEL Classification: C23, G32, G2.

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