

20120113 Czech National Bank: Models for Stress Testing Czech Banks' Liquidity Risk (Working Paper)

Source: Czech National Bank

Abstract

We provide a macro stress-testing model for banks' market and funding liquidity risks with a survival period of one and three months. The model takes into account the impact of both bank-specific and market-wide scenarios and considers both the first- and second-round effects of shocks. The testing model has three phases; (i) the formation of a balance-sheet liquidity shortfall, (ii) the reaction by banks, and (iii) the feedback effects of shocks. During each phase we re-count the liquidity buffer and examine whether banks hold a sufficiently large amount of liquid assets to be able to survive the liquidity tension in their balance sheets. An application to Czech banks illustrates which bank business models are sensitive to liquidity tensions. Overall, we confirm that the Czech banking system is resilient to a scenario mimicking the international liquidity crisis of 2008-2009.

To download the paper, click [here](#).

NovaRes Team