New Approaches to Stress Testing the Czech Banking Sector (in English)

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Abstract

This paper provides an overview of the stress testing of the Czech banking sector conducted by the Czech National Bank. The paper begins by updating historical and hypothetical stress-testing scenarios. It also includes a sensitivity analysis of the interest-rate risk and new presentation forms of such. The results of interbank contagion tests (both simple and combined) based on Czech banks' exposures on the interbank market are offered. Finally, the paper integrates the stress testing with CNB macroeconomic forecasts (i.e., the quasi-phase-matching model). The authors' stress testing was also integrated with the macroeconomic credit-risk model, with the impact on individual bank portfolios, and with interbank contagion. One baseline and three alternative scenarios were tested they have shown that the Czech banking sector was relatively resilient to the shocks. However, the exercise also revealed certain limitations of the stress-testing approach, to which the authors offer recommendations for the further development of this apparatus.

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