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CREDIT RISK DETERMINANTS IN THE VULNERABLE ECONOMIES OF EUROPE: EVIDENCE FROM THE ITALIAN BANKING SYSTEM

Abstract:

This study uses the ARDL approach to cointegration to identify the factors affecting credit risk in the Italian banking system over the period 1997Q4-2017Q1. The ratio of new bad loans to the outstanding amount of performing loans in the previous period is the selected proxy of credit risk whereas a wide range of explanatory variables are included in the study. Compared to the previous studies, a wider timeframe is investigated, which captures the booming period, the global financial crisis and the ongoing Eurozone sovereign debt crisis. The findings suggest that macroeconomic cyclical, bank-specific, and financial market variables affect the flow of new bad loans in the Italian banking system. The high significance of the sovereign debt crisis risk proxy signals the important link between banking and sovereign debt crisis.

Keywords:

Credit risk, macroeconomic determinants, bank-specific variables, sovereign debt crisis, Italian banking system credit risk, Italian banking system, sovereign debt crisis

JEL Classification: C32, G17, G21