

MACROECONOMIC DRIVERS OF CREDIT RISK IN ROMANIA

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Abstract: *This study investigates the macroeconomic determinants of credit risk in Romania, based on credit demand features identified. The key motivation of this paper relies on the effects of credit risk on financial system's performance, as high nonperforming loans ratios have tangible effects on the real economy, affecting banks' capacity to grant new loans and, subsequently, jeopardizing investment and economic growth. The research is conducted by means of time series modeling using quarterly data that span from 2010 to 2019. We employ a set of macroeconomic variables comprising the economic growth rate, unemployment and inflation rate, the interest rate and exchange rates. The results suggest that credit risk responds to country-specific macroeconomic indicators, thus making macroeconomic conditions as important drivers in assessing credit risk vulnerabilities. Our study also controls for the characteristics of the economy in the recent years, by means of exchange rate fluctuations and interest rate differentials.*

Key words: *financial stability; credit risk; macroeconomic determinants; Romania*

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