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Sommario/riassunto

We propose a stress testing framework of credit risk, which analyzes macro-financial linkages, generates consistent forecasts of macro-financial variables, and projects non-performing loans (NPL) on the basis of such forecasts. Economic contractions are generally associated with increases in NPL. However, despite the common assumption used in the empirical literature of homogeneous impact across banks, the strength of this relationship is often bank-specific, and imposing homogeneity may lead to over or underestimating the resilience of the financial system to macroeconomic woes. Our approach accounts for banks' heterogeneous reaction to macro-financial shocks in a dynamic context and potential cross-sectional dependence across banks caused by common shocks. An application to Ecuador suggests that substantial heterogeneity is present and that this should be taken into account when trying to anticipate inflections in the quality of portfolio.
