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Many a Little Makes a Mickle: Stress Testing Small and Medium-Sized German Banks*

Ramona Busch, Philipp Koziol, and Marc Mitrovic

Abstract

We develop a macroeconomic portfolio stress test that is specifically geared towards small and medium-sized German banks. We combine a credit risk stress test which simulates credit impairments via a CreditMetrics type multi-factor portfolio model with an income stress test in the form of dynamic panel data regressions. Based on a stress scenario that extends experience of the financial crisis by integrating the current low-interest-rate environment, we analyse the stress impact on banks' capital ratios. Our results show that German small and medium sized banks prove to be very resilient to macroeconomic stress. Furthermore, the main stress drivers prove to be credit impairments rather than other net income components.

Keywords: Macro Stress Tests, Macroprudential Supervision, Small and Medium-sized Banks, Income Stress Test, Credit Risk

JEL classification: C13, C15, G21, G33

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