
Aspects of the impact of interest rate development on the probability of default

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Abstract

The acceptance of banking risks and their control is one of the key moments in banking activity. Success in banking management is possible only if the risks accepted by banks are reasonable, can be controlled and do not exceed the financial resources and their expertise.

The occurrence of the interest rate risk is due to the holding a portfolio of assets and liabilities with fixed interest, different in terms of maturities and price and in terms of ownership of assets and liabilities with variable interest that adapts differently to interest rate fluctuations.

The estimation of the probability of default is the first step to determine and assess risk. The major issues in the estimation of PD are generated by the limitation of the required information.

This work captures the impact of interest rate on the PD at maturity of loans. The analysis covers the period January 2013 - December 2015 using data on interest rates in the interbank market, the type of loans granted and the number of people that recored outstanding loans.

Keywords: *Probability of default (PD), interest rate, credit risk, financial institutions, interest rate risk*

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