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Credit Cycles, Credit Risk and Countercyclical Loan Provisions

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In this paper we investigate the impact of rapid credit growth on ex ante credit risk. We present micro-econometric evidence of the positive relationship between rapid credit growth and deterioration in lending portfolios: Loans granted during boom periods have higher probability of default than those granted during periods of slow credit growth. In addition, given their importance for macroprudential policy, we evaluate the effectiveness of the implementation of the countercyclical loan provisions. We find a negative relationship between the amplitude of credit cycles and this kind of macroprudential tool.

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