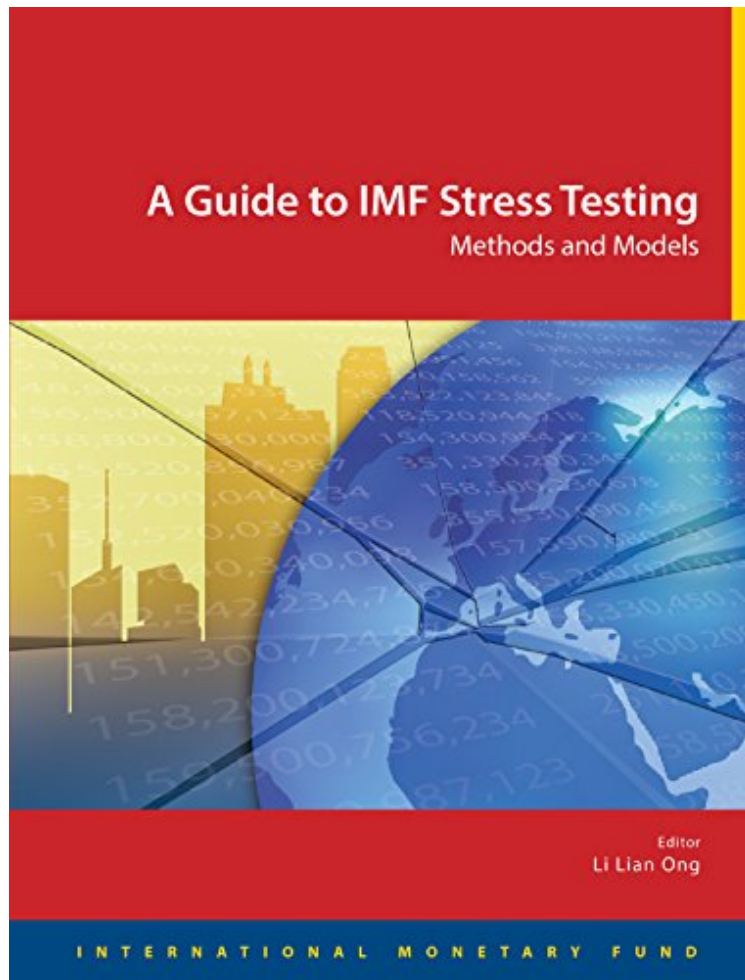


# A Guide to IMF Stress Testing : Methods and Models

*Li L. Ong*

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0 of 0 people found the following review helpful. Four StarsBy Felipe Llaugel EmilianoThis book presents a good approach for stress testing for financial institutions1 of 1 people found the following review helpful. Testing financial systems to spot weaknessesBy Jeremy P. CliftThe global financial crisis of 2007-09 has placed a spotlight on the stress testing of financial systems to spot weaknesses before they trigger distaster. Although weaknesses in stress tests were exposed by the crisis, the recent experience of several countries has conversely provided a stark illustration of their potential benefit in examining the resilience of bank balance sheets when performed credibly and transparently. Nonetheless, the large menu of stress testing approaches, methods, and models raises questions about their appropriate application under different situations and, consequently, the comparability and reliability of the associated analyses.The International Monetary Fund has had a long and unique involvement in the stress testing of financial systems. Since the introduction of its Financial Sector Assessment Program more than a decade ago, IMF economists

have conducted stress tests of banking sectors in over 120 countries, typically in close collaboration with country authorities. Stress testing is also playing an increasingly important role in the IMF's multilateral economic surveillance, through the analysis in its Global Financial Stability Report. Separately, member countries are increasingly requesting IMF technical assistance in stress testing as they develop their own expertise in this area. As a result, IMF staff have amassed a wealth of hands-on experience with stress testing techniques and their practical application. This book represents a compendium of stress testing methods, models, and tools developed or adapted by IMF staff over the years. Almost all the methods and models that are included in this volume have, at one time or another, been applied in its surveillance of, or technical assistance to, member countries. To guide users, each chapter offers a summary describing the application of a method or model, its strengths and weaknesses, and the data requirements. Where available, the stress testing tools or program codes are also provided for wider public use. Although this volume contains a wealth of information and provides a valuable resource for policymakers, supervisors, academics, and private sector participants alike, caveats still apply. The crisis has underscored that stress tests, irrespective of their level of sophistication, are not fail-safe, stand-alone diagnostic tools. Assessments of the soundness of any financial system cannot and should not be based solely on a "model"; and must be complemented by other quantitative analyses, qualitative information, and, most important, expert judgment. Especially in light of evolving market practices, risks, and regulatory requirements, stress testing will necessarily continue to be art rather than science.

The IMF has had extensive involvement in the stress testing of financial systems through its bilateral and multilateral surveillance, as well as through technical assistance to member countries. These are the toolkits which follow the methods and models that have been developed by IMF staff over the years. Ancillary materials tied to this publication can be accessed via the IMF eLibrary: <http://www.elibrary.imf.org/page/stress-test-toolkit>