

Quantifying Systemic Risk: the Case of Thai Banking Sector

ABSTRACT

Due to the recent financial crisis in the US, the policy makers, central bankers, and financial supervisors have to face with the new challenge relating to redesigning macroeconomics, regulatory as well as supervisory policy with the framework that can mitigate systemic risk. For the current frameworks, they emphasize on limit individual risk of institution in isolation. Thus, financial institutions are required to calculate their VaR and not necessary taken their externality (contribution of risk to the whole system) into account. This paper adopt the idea of measuring systemic risk by Conditional Value-at-Risk (CoVaR) as Adrian and Brunnermeier (2010) proposed in order to introduce the idea about measuring systemic risk for Thai banking sector. The result shows that the institution with low VaR may cause additional risk to the system more than the institution with high VaR, however, we also find that the institution with high VaR may not always be the most vulnerable to systemic distress.