Predicting the Probability of Default; A Comparative Analysis of U.S. & European Corporate Default

Dina Shakah*

Supervisor:

Prof. Dr. Steven Ongena

Banking & Finance, Universität Zürich

Abstract

The Great Recession has depicted how credit risk can spill over from one asset class to the broader economy, and from one economy on to the rest of the world. This spillover magnifies the need for cross-country bankruptcy prediction analysis. Through the application of two logistic regressions, this paper examines whether corporate bankruptcy rates of firms operating in two of the world's largest economies are significantly different from one another. The models rather suggest that non-financial firms in Europe are more likely to default than US-based firms. Despite the convergence of default models across different countries, the results imply that there are pertinent regional factors such as international differences in lending practices, accounting standards, corporate governance, and legal landscapes that have kept corporate default rates from harmonizing across regions.

Keywords: Credit risk, default, logistic regression, bankruptcy