Publication Date: May 2, 2018
Effective Date: May 2, 2018
Addendum 10 to the CRI Technical Report (Version: 2017, Update 1)

This addendum describes the change to the treatment of the 3-month interest rate used as one of the macro-financial drivers in the CRI-PD model. The prior method is documented in Technical Report (Version: 2017, Update 1). The change is:

- Apply standardization to each economy's interest rate time series, except for China and India. The standardization is to demean each series and then scale the demeaned values so that the standard deviation equals one.

The CRI-PD model is calibrated by classifying all economies into six calibration groups as documented in Technical Report (Version: 2017, Update 1), where only China and India are calibrated individually. Previously, the 3-month interest rate entered the CRI-PD model as the current value minus the historical average of the month-end values so as to reflect the change relative to the historical average. The new treatment instead applies a standardization intending to put all economies on the same scale so that the same interest rate parameter can be reasonably used on firms from different countries/economies.

For the Eurozone economies, we use the standardized German 3-month Bubill rate after a country joined the Eurozone. Prior to joining, the interest rates of a country are standardized using the mean and standard deviation from its pre-Eurozone period.

The performance of the CRI-PD model after the change remains qualitatively similar.

References

Credit Research Initiative, 2017, "NUS-RMI Credit Research Initiative Technical Report Version: 2017 update 1," National University of Singapore.