Macro-Prudential Indicator Model

Model Summary Document (MSD)

1. Model Purpose and Description

The purpose of the Macro-Prudential Indicator Model (MPIM) is to produce Fitch's MPI score which provides an indicator of the build-up of potential stress in banking systems that could materialise up to three years after an early warning is first indicated. The score is on a scale from '1' (low vulnerability) to '3' (high vulnerability).

The score is considered as part of the "Financial Sector Risks" component of the "Structural Features" Qualitative Overlay assessment.

The model contains separate modules for Emerging Markets (EMs) and Developed Markets (DMs). For DMs (equivalent to the IMF's "Advanced Economies"), the MPI score is derived from the deviation of input variables from trend. Trends are derived from as long a time series of annual data as is available (from 1975 onwards), using a Hodrick-Prescott (HP) filter, but are sensitive to the development of actual data and will change over time. For EMs, the focus is on real-terms annual percentage changes in the input variables.

2. Model Assumptions

Where applicable, the assumptions in the model are described in Fitch's criteria

- Sovereign Rating Criteria

3. Model Inputs

The starting point input is the binary development classification (i.e. DM or EM), and then:

- For DMs, the four input variables are the ratio of private sector credit/GDP and indexes for the real effective exchange rate (RER), real equity prices and real property prices.
- For EMs, the four input variables are real private-sector credit growth, RER growth, real equity price growth and real property price growth.

4. Model Development Data

This rating model does not directly use historical data for its development and calibration, and it only uses issuer specific data and other related data as described in the relevant criteria and/or RAC.

5. Model Limitations

Limitations include, but are not limited to, the following: The model is intended only to analyse sovereign issuers within the scope of Fitch's "Sovereign Rating Criteria".

6. Material Changes

The current model version is 1.5.x. Any future material changes will be disclosed in this section.

Contact Information

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