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Prediction Models for Corporate Financial Distress in Southeast Asia

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Accounting
Z-score
Regression

Distance to default

Prediction Models for Corporate Financial Distress in Southeast Asia

Interest cover

Background to research objectives

- A key focus of the ASEAN Economic Community (AEC) is financial and economic integration in the region.
- Credit regulation is one of the financial integration challenges in the AEC. Building prediction models of corporate financial distress plays an important role in the business activity of banks.
- The study focuses on the six largest countries in the AEC: Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam, which in 2015 had a combined GDP of \$2.1 Trillion USD, representing slightly more than 85% of ASEAN GDP.



Contribution of the study

- The research will determine the best default prediction models for each one of the ASEAN nations included in this study.
- The study will determine the prediction ability of the models under different economic circumstances, including pre and post AFC, and pre and post GFC.
- This research will assist banks and regulators to better identify default risk.
- This study is also expected to be useful to investors, by signalling signs of distress in invested firms.



Methodology

- Stepwise regressions will be used to assess the best variables for default prediction models.
- The aggregate default prediction scores will be compared to aggregate corporate NPLs (Non-performing loans) for each country. Various time lags will be tested to see if the models can provide an early warning indicator of potential financial problems.
- Financial statement data and share prices of firms will be collected from Thomson Reuters Datastream from 1996 to 2015. NPLs will be obtained from the World Bank website, and bank annual reports.

