

ABSTRACT, KEYWORDS AND JEL CODES

A solid banking system is of key importance for the well-functioning of an economy, as it establishes a bridge between lenders and borrowers. Financial stability, particularly, banking stability, has been gaining a greater focus from supervisory authorities and academics due to its interconnectedness with the real economy. This dissertation aims to use a tool, the aggregate banking stability index (ABSI), to assess banking stability and its determinants in Portugal. In order to do so, firstly, an index reflecting banking stability during the 2010-2019 period is constructed. Secondly, with recourse to time series techniques, an analysis is made on the impact of macroprudential indicators, for the Portuguese banking system. Findings suggest for an improvement of the stability since 2017 and, in line with the empirical literature, point significant macroeconomic such as the growth rate of the consumer price index ($\%\Delta\text{CPI}$) and financial such as the ratio of the second money multiplier (M2) to gross domestic product (GDP) early warning indicators.

KEYWORDS: Banking System Stability; Time series Regression; Stability Index; Financial Soundness Indicators; Macroprudential Indicators; Portugal.

JEL CODES: C32; C43; G21; E44;

